Frederick County Bancorp, Inc.

2012
ANNUAL
REPORT

Notice of Annual Meeting and Proxy Statement

Continuing Our Commitment

The journey to success demands commitment. It is not enough to determine the correct route and follow its path. Arrival at the chosen destination calls for careful attention to markers along the way. Skillful maneuvers at crossings and turns. The wisdom to change direction when faced with unexpected conditions. And dedication of every available resource to assure progress.

At Frederick County Bank, these are the guideposts of our continued commitment to success in the banking industry.

Table of Contents

Letter to Our Shareholders 2

Selected Financial Highlights 3

Directors and Officers 4

2013 Notice of Annual Meeting
and Proxy Statement 5

2012 Form 10-K 29

Shareholder Information 113

To Our Shareholders

On behalf of the employees and directors of Frederick County Bank (the "Bank" and "FCB") and its holding company, Frederick County Bancorp, Inc. (the "Company") (OTC Bulletin Board: FCBI), it is my pleasure to present the 2012 Annual Report of the Company to our shareholders.

For the quarter ended December 31, 2012, the Company recorded net income of $276 thousand and diluted earnings per share of $0.18, as compared to net income of $344 thousand and diluted earnings per share of $0.23 recorded for the fourth quarter of 2011. And, for year ended December 31, 2012, the Company reported net income of $1.40 million and diluted earnings per share of $0.92, as compared to net income of $1.02 million and diluted earnings per share of $0.68 for the same period in 2011. Full year 2012 earnings included a provision for loan losses of $1.28 million, securities gains in the amount of $1.05 million and provision for foreclosed properties of $716 thousand, as compared to a provision for loan losses of $1.74 million, securities gains in the amount of $386 thousand and provision for foreclosed properties of $124 thousand for 2011.

Total assets as of December 31, 2012, stood at $314.5 million, with total deposits of $268.1 million and gross loans of $229.3 million, representing increases of 7.7%, 8.8% and 8.0% respectively, compared to the full year of 2011. Loan and deposit growth, and consequently asset growth, were relatively strong for the year.

As the local economy continued to show signs of improvement in 2012, FCB was actively seeking and seizing both commercial and consumer loan opportunities in our very competitive market and we will continue on that track through 2013. And, while the regulatory environment has grown considerably more complex in the recent past, we are making every effort to stay abreast of the regulations and directives that impact the banking industry. Above all, we are very excited about implementing new technologies in the near future not only to improve efficiency, but to stay current with changing demographics and banking behaviors, which are increasingly being directed through mobile access devices such as smartphones.

In closing, we believe that our most valuable assets are our clients, shareholders, and employees, for which we are very grateful. More than anything else, the Bank's performance reflects your patronage, continued enthusiasm and contributions during these very challenging times. As a result, our family of clients continues to grow, and so do we, with five branches and a first-class team.

Sincerely,

Martin S. Lapera
President and CEO

Selected Financial Data

The following table sets forth certain selected financial data concerning the Company, and is qualified in its entirety by the detailed information and consolidated financial statements, including notes thereto, included elsewhere herein.

	Years Ended December 31,				
(dollars in thousands, except per share amounts)	2012	2011	2010	2009	2008
Summary of Operating Results:					
Total interest income	$ 13,013	$ 13,612	$ 14,496	$ 14,001	$ 15,480
Total interest expense	2,044	3,010	3,948	5,274	7,116
Net interest income	10,969	10,602	10,548	8,727	8,364
Provision for loan losses	1,275	1,740	1,660	1,175	935
Net interest income after provision for loan losses	9,694	8,862	8,888	7,552	7,429
Securities gains (losses)	1,050	386	283	235	26
(Loss) gain on sale of foreclosed properties	(82)	(18)	—	(37)	15
Bank owned life insurance	187	101	—	—	—
Other noninterest income (excluding gains and losses)	673	526	566	577	535
Noninterest expenses	9,603	8,517	7,956	6,791	6,526
Income before provision for income taxes	1,919	1,340	1,781	1,536	1,479
Provision for income taxes	524	316	626	488	441
Net income	1,395	1,024	1,155	1,048	1,038
Other comprehensive income (loss), net of taxes	(335)	834	(77)	78	(9)
Comprehensive income	$ 1,060	$ 1,858	$ 1,078	$ 1,126	$ 1,029
Per Share Data:					
Basic earnings	$0.92	$0.69	$0.79	$0.72	$0.71
Diluted earnings	$0.92	$0.68	$0.78	$0.71	$0.69
Dividends declared	$0.20	$0.10	$—	$—	$—
Book value at period-end	$17.40	$16.81	$15.79	$14.88	14.11
Shares outstanding at period-end	1,508,574	1,514,314	1,469,364	1,461,802	1,460,802
Weighted average shares outstanding:					
Basic	1,513,941	1,487,307	1,469,100	1,461,079	1,460,670
Diluted	1,515,663	1,513,763	1,482,350	1,475,068	1,503,372
Other Data (At Year-End):					
Assets	$314,459	$ 292,012	$ 289,043	$ 258,559	$ 254,562
Investments	36,292	37,933	31,699	25,643	21,639
Loans	229,288	212,315	209,387	214,943	211,840
Deposits	268,113	246,487	248,624	219,312	216,883
Short-term borrowings	2,700	2,700	300	500	—
Long-term borrowings	10,000	10,000	10,000	10,000	10,000
Junior subordinated debentures	6,186	6,186	6,186	6,186	6,186
Shareholders' equity	26,256	25,457	23,195	21,750	20,612
Performance Ratios:					
Return on average assets	0.46%	0.35%	0.40%	0.40%	0.40%
Return on average shareholders' equity	5.29%	4.20%	5.04%	4.92%	5.12%
Allowance for loan losses to total loans	1.56%	1.51%	1.78%	1.45%	1.47%
Nonperforming assets to total assets	2.53%	3.09%	5.05%	0.56%	0.61%
Ratio of net charge-offs to average loans	0.42%	1.07%	0.49%	0.56%	0.21%
Average equity to average assets	8.61%	8.35%	8.02%	8.19%	7.83%
Tier 1 capital to risk-weighted assets	12.25%	12.69%	12.86%	11.81%	11.59%
Total capital to risk-weighted assets	13.50%	13.94%	14.11%	13.06%	12.84%

Board of Directors

Raymond Raedy*
Chairman of the Board
Investor/Business Owner

Kenneth G. McCombs
Vice Chairman of the Board
President/Co-owner
Miscellaneous Metals, Inc.

Ellis R. Barber
Founder; Cindell Construction

Emil D. Bennett
President/Owner; Rock Creek Realty

John N. Burdette*
Chairman Emeritus
Principal; Offutt, Horman, Burdette and May P.A.

Robert S. Carmack
President
Carmack Insurance Group

J. Denham Crum
General Managing Partner
Crumland Farms, LLC

William S. Fout
Former President/Owner
William S. Fout, Inc.

Helen G. Hahn
Former Treasurer; Evangelical Lutheran Church
Former SVP Operations at FCNB Bank

Martin S. Lapera*
President & Chief Executive Officer

Farhad Memarsadeghi
Chief Executive Officer
Admar Custom Homes, Inc.

* *Titles are both Frederick County Bancorp, Inc. and Frederick County Bank*

Frederick County Bancorp, Inc. Officers

Chairman of the Board & Secretary
Raymond Raedy

Vice Chairman
Kenneth G. McCombs

Chairman Emeritus
John N. Burdette

Martin S. Lapera
William R. Talley, Jr.

Corporate Headquarters

9 North Market Street
Frederick, MD 21701
301.620.1400

Frederick County Bank Locations

Administrative Office
7 North Market Street, 2nd Floor
Frederick, MD 21701

Antietam Center
198 Thomas Johnson Drive
Frederick, MD 21702

Crestwood
6910 Crestwood Boulevard
Frederick, MD 21703

East Frederick
490 Monocacy Boulevard
Frederick, MD 21701

Patrick Center
30 West Patrick Street
Frederick, MD 21701

Walkersville
200 Commerce Drive
Walkersville, MD 21793

24-Hour Telephone Banking

1.877.236.1485

Internet

www.fcbmd.com

Customer Service

301.620.1400

Frederick County Bank Officers

President & Chief Executive Officer
Martin S. Lapera

Executive Vice President, Chief Financial Officer & Chief Operating Officer
William R. Talley, Jr.

Senior Vice President & Chief Technology Officer
Jay M. House

Senior Vice Presidents
Richard A. Davies
Taitia L. Elliott
Denise Guyton-Boyer
Fern W. Mercer
Craig P. Russell
Crystal L. Wiles

Vice Presidents
Mary K. Barry
Barbara A. Biddinger
Michael S. Burrier
Lori C. Cromwell
Steven A. Fennington
Lisa D. Mulks
Yvonne M. Reeder
Ann M. Seiss
Joseph A. Wolf
Wendy L. Wotring

Assistant Vice Presidents
Cathy S. Alexander
Clark W. Briggs
Amanda Ebert
Tammie S. Jones
Kevin L. Kisner
Anna R. Speak

Branch Officer, Branch Manager
Michael D. McIntyre

Branch Officer, Assistant Branch Manager
Susan J. Barthlow
Cragan K. Bradley
Maryann E. Fox
Joy L. Reichard
Shirley S. Shadle

Senior Retail Lending Officer
Jewell A. Kemp

Loan Operations Officer
Anjeannette R. Sparkman

FREDERICK COUNTY BANCORP, INC.

9 North Market Street
Frederick, Maryland 21701

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held April 23, 2013

To the Shareholders of Frederick County Bancorp, Inc.:

The Annual Meeting of Shareholders of Frederick County Bancorp, Inc. will be held at:

Dutch's Daughter
581 Himes Avenue
Frederick, Maryland

on April 23, 2013 at 7:00 p.m. for the following purposes:

(1) To elect nine (9) directors to serve until their successors are duly elected and qualified.

(2) To ratify the appointment of Stegman & Company as the Company's independent registered public accounting firm for the year ending December 31, 2013.

(3) To vote on a non-binding advisory resolution approving the compensation of the Company's named executive officers.

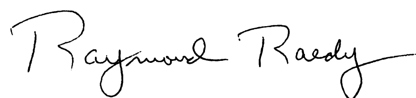
(4) To vote on a non-binding advisory resolution regarding the frequency of future advisory votes on executive compensation.

(5) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Shareholders of record as of the close of business on February 1, 2013 are entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement of the meeting.

By Order of the Board of Directors

FREDERICK COUNTY BANCORP, INC.



Raymond Raedy
Chairman of the Board & Secretary

Frederick, Maryland
March 1, 2013

Please sign, date and return your proxy promptly, whether or not you plan to attend the meeting in person. No postage is required if mailed in the United States in the enclosed envelope. If you attend the meeting, you may, if you desire, revoke your proxy and vote in person. If your shares are not registered in your name, you will need additional information from your recordholder in order to vote in person.

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FREDERICK COUNTY BANCORP, INC.

9 North Market Street
Frederick, MD 21701

ANNUAL MEETING OF SHAREHOLDERS
PROXY STATEMENT

This proxy statement is being sent to shareholders of Frederick County Bancorp, Inc., a Maryland corporation (the "Company"), in connection with the solicitation of proxies by the Board of Directors of the Company for use at the Annual Meeting of Shareholders to be held at 7:00 p.m. on April 23, 2013 (the "Meeting"), and at any adjournment or postponement of the Meeting. The purposes of the Meeting are:

(1) To elect nine (9) directors to serve until their successors are duly elected and qualified.

(2) To ratify the appointment of Stegman & Company as the Company's independent registered public accounting firm for the year ending December 31, 2013.

(3) To vote on a non-binding advisory resolution approving the compensation of the Company's named executive officers.

(4) To vote on a non-binding advisory resolution regarding the frequency of future advisory votes on executive compensation.

(5) To transact such other business as may properly come before the Meeting or any adjournment or postponement of the Meeting.

The Meeting will be held at:

Dutch's Daughter
581 Himes Avenue
Frederick, Maryland

This proxy statement and proxy card are being sent to shareholders of the Company on or about March 1, 2013. A copy of our Annual Report on Form 10-K for the year ended December 31, 2012, which includes our audited consolidated financial statements, also accompanies this proxy statement.

VOTING RIGHTS AND PROXIES

Voting Rights

Only shareholders of record at the close of business on February 1, 2013 will be entitled to notice of and to vote at the Meeting or any adjournment or postponement of the Meeting. On that date, there were 1,508,574 shares of our common stock, par value $0.01 per share, outstanding, held by approximately 626 shareholders of record. The common stock is the only class of the Company's stock of which shares are outstanding. Each share of common stock is entitled to one vote on all matters submitted to a vote of the shareholders. Shareholders do not have the right to cumulate votes in the election of directors. The presence at the Meeting, in person or by proxy, of not less than a majority of the total number of outstanding shares of common stock is necessary to constitute a quorum.

Proxies

Properly executed proxies which are received by the Company in time to be voted at the Meeting will be voted as specified by the shareholder giving the proxy. In the absence of specific instructions, proxies received will be voted **FOR** the election of the nominees for election as directors, **FOR** ratification of the appointment of the independent registered public accounting firm, **FOR** the

non-binding advisory resolution approving the compensation of our named executive officers, and **FOR** holding future non-binding resolutions on the compensation of our executive officers every year. Management does not know of any matters other than those described in this proxy statement that will be brought before the Meeting. If other matters are properly brought before the Meeting, the persons named in the proxy intend to vote the shares to which the proxies relate in accordance with their best judgment. Under the rules of the New York Stock Exchange applicable to its member firms, such firms will not vote shares on the election of directors or the non-binding advisory votes on executive compensation unless they receive instructions from the beneficial owners of the shares they hold. **If you hold your shares through a bank or broker, it is extremely important that you instruct your record holder how to vote your shares.** The election of directors (even if not contested), and the advisory votes on executive compensation, are not considered "routine" matters. As such, your broker cannot vote your shares on these matters if you do not give instructions.

The judges of election appointed by the Board of Directors for the Meeting will determine the presence of a quorum and will tabulate the votes cast at the Meeting. Abstentions will be treated as present for purposes of determining a quorum, but as unvoted for purposes of determining the approval of any matter submitted to the vote of shareholders. If a broker or other nominee of shares held in "street name" advises the Company that it cannot vote on a matter because the beneficial owner has not provided voting instructions and it does not have discretionary voting authority on a particular matter, this is a "broker non-vote" with respect to that matter. Shares subject to broker non-votes will be counted as shares present or represented at the meeting for purposes of determining whether a quorum exists, however, such shares will not be considered as present or voted with respect to the matters on which the broker does not have the power to vote.

Please sign, date, mark and promptly return the enclosed proxy in the postage paid envelope provided for this purpose in order to assure that your shares are voted. You may revoke your proxy at any time before it is voted at the Meeting:

- by granting a later proxy with respect to the same shares;
- by sending written notice to Raymond Raedy, Chairman of the Board & Secretary of the Company, at the address noted above, at any time prior to the proxy being voted; or
- by voting in person at the Meeting.

Attendance at the Meeting will not, in itself, revoke a proxy. If your shares are held in the name of your bank or broker, you will need additional documentation to vote in person at the meeting. Please see the voting form provided by your recordholder for additional information regarding the voting of your shares.

Many shareholders whose shares are held in an account at a brokerage firm or bank will have the option to submit their proxies or voting instructions electronically through the Internet or by telephone. Shareholders should check the voting form or instructions provided by their recordholder to see which options are available. Shareholders submitting proxies or voting instructions electronically should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies that would be borne by the shareholder. To revoke a proxy previously submitted electronically, a shareholder may simply submit a new proxy at a later date before the taking of the vote at the Meeting, in which case, the later submitted proxy will be recorded and the earlier proxy will be revoked.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on April 23, 2013. This Proxy Statement and our Annual Report on Form 10-K for the year ended December 31, 2012 is also available online at **http://www.cfpproxy.com/5525**.

VOTING SECURITIES AND PRINCIPAL HOLDERS

The following table sets forth certain information as of February 1, 2013 concerning the number and percentage of shares of the Company's common stock beneficially owned by its directors, nominees for director, and executive officers for whom compensation information is included in this proxy statement, and by its directors and executive officers as a group. Except as otherwise indicated, all shares are owned directly, the named person possesses sole voting and sole investment power with respect to all such shares, and none of such shares are pledged as security. Except as indicated below, the Company knows of no other person or persons, other than street name nominee owners, who, beneficially or of record, own in excess of five percent of the Company's common stock. Further, the Company is not aware of any arrangement, which at a subsequent date may result in a change of control of the Company.

Name	Age	Number of Shares Beneficially Owned(1)	Percentage of Class Beneficially Owned(2)
Directors			
Ellis R. Barber	58	3,567(3)	0.24%
Emil D. Bennett	66	42,800(4)	2.83%
John N. Burdette	85	48,420(5)	3.20%
Robert S. Carmack	59	1,225(6)	0.08%
J. Denham Crum	67	30,000(7)	1.98%
William S. Fout, Sr.	73	25,700(8)	1.70%
Helen G. Hahn	76	6,500(9)	0.43%
Martin S. Lapera 9 North Market Street Frederick, Maryland 21701	60	143,456(10)	9.37%
Kenneth G. McCombs	73	40,001(11)	2.64%
Farhad Memarsadeghi	67	68,800(12)	4.55%
Raymond Raedy	72	55,917(13)	3.70%
Executive Officers			
William R. Talley, Jr.	57	43,324(14)	2.85%
All directors and executive officers as a group (12 persons)		509,910(15)	32.21%

(1) In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, a person is deemed to be the beneficial owner, for purposes of this table, of any shares of common stock with respect to which he or she has sole or shared voting and/or investment power, including any shares which he or she has the right to acquire within 60 days. The table includes shares owned by spouses, other immediate family members, in trust, shares held in retirement accounts or retirement funds for the benefit of the named individuals, and other forms of ownership, over which shares the persons named in the table possess voting and investment power. Certain shares beneficially owned by the Company's directors and executive officers may be held in accounts with third party firms, where such shares may from time to time be subject to a security interest for margin credit provided in accordance with such firm's policies.

(2) Based on 1,508,574 shares outstanding as of February 1, 2013, except with respect to persons holding options to acquire common stock exercisable within sixty days of that date, in which event represents percentage of shares issued and outstanding plus the number of such options held by such person, and all directors and officers as a group, which represents percentage of shares outstanding plus the number of such options held by all such persons as a group.

(3) The shares attributed to Mr. Barber include 3,567 shares as to which Mr. Barber shares voting and investment power with his wife.

(4) Included in the total shares owned by Mr. Bennett are options, currently exercisable, to purchase 5,000 shares of the Company's common stock.

(5) The shares attributed to Mr. Burdette include 7,000 shares held in trust as to which he has voting and investment power. Also included in the total shares owned are options, currently exercisable, to purchase 6,000 shares of the Company's common stock.

(6) The shares attributed to Mr. Carmack include 1,125 shares owned by a company that Mr. Carmack controls and over which he has voting and investment power.

(7) The shares attributed to Mr. Crum include 16,000 shares as to which Mr. Crum shares voting and investment power with his wife, and 9,000 shares held in trust as to which Mr. Crum has voting and investment power. Also included in the total shares owned are options, currently exercisable, to purchase 5,000 shares of the Company's common stock.

(8) The shares attributed to Mr. Fout include 3,500 shares as to which Mr. Fout shares voting and investment power with his wife and 2,000 shares owned by his wife as to which Mr. Fout disclaims beneficial ownership. Also included in the total shares owned are options, currently exercisable, to purchase 5,000 shares of the Company's common stock. Mr. Fout is not standing for re-election at the Meeting.

(9) Included in the total shares owned by Mrs. Hahn are options, currently exercisable, to purchase 5,000 shares of the Company's common stock. Mrs. Hahn is not standing for re-election at the Meeting.

(10) The shares attributed to Mr. Lapera include 75,000 shares as to which Mr. Lapera shares voting and investment power with his wife, 18,806 shares owned by Mr. Lapera's wife and 750 shares owned by Mr. Lapera's wife with their daughter. Mr. Lapera disclaims beneficial ownership of the shares held by his wife and by his wife with their daughter. Also included in the total shares owned are options, currently exercisable, to purchase 23,000 shares of the Company's common stock

(11) The shares attributed to Mr. McCombs include 35,001 shares as to which Mr. McCombs shares voting and investment power with his wife. Also included in the total shares owned are options, currently exercisable, to purchase 5,000 shares of the Company's common stock.

(12) The shares attributed to Mr. Memarsadeghi include 31,500 shares owned by Mr. Memarsadeghi's wife and 8,000 shares owned by his daughters, as to all of which Mr. Memarsadeghi disclaims beneficial ownership. Also included in the total shares owned are options, currently exercisable, to purchase 5,000 shares of the Company's common stock.

(13) The shares attributed to Mr. Raedy include 31,944 shares as to which Mr. Raedy shares voting and investment powers with his wife and their sons and 1,697 shares owned by Mr. Raedy's wife, as to which Mr. Raedy disclaims beneficial ownership. Also included in

the total shares owned are options, currently exercisable, to purchase 2,410 shares of the Company's common stock.

(14) The shares attributed to Mr. Talley include 21,524 shares as to which Mr. Talley shares voting and investment power with his wife and 3,800 shares owned by Mr. Talley's wife. Also included in the total shares owned are options, currently exercisable, to purchase 12,250 shares of the Company's common stock.

(15) Includes options, currently exercisable, to purchase an aggregate of 73,660 shares of common stock.

PROPOSAL 1—ELECTION OF DIRECTORS

Nine (9) directors will be elected at the Meeting for a one-year period until the 2014 Annual Meeting of Shareholders and until their successors have been elected and qualified. Unless authority is withheld, all proxies in response to this solicitation will be voted for the election of the nominees listed below. Each nominee has indicated a willingness to serve if elected. However, if any nominee becomes unable to serve, the proxies received in response to this solicitation will be voted for a replacement nominee selected in accordance with the best judgment of the proxy holders named therein. Each of the nominees for election as director currently serves as a director. The term of service indicated below includes service as a director of Frederick County Bank (the "Bank") before the Company was established as the holding company for the Bank in 2003.

The Board of Directors has determined that each director other than Mr. Lapera is an "independent director" as that term is defined in Rule 5605(a)(2) of The NASDAQ Stock Market (the "NASDAQ"). In making this determination, the Board of Directors was aware of and considered the loan and deposit relationships with directors and their related interests which the Company enters into in the ordinary course of its business, and the lease arrangements which are disclosed under "Transactions with Related Parties" in this proxy statement.

Vote Required and Recommendation of the Board of Directors. Nominees receiving a plurality of the votes cast at the Meeting in the election of directors will be elected as directors in the order of the number of votes received. **The Board of Directors recommends that shareholders vote FOR each of the nominees to the Board of Directors.**

Directors and Nominees for Election as Directors

Set forth below is certain information concerning the directors of the Company each of whom, other than Mrs. Hahn and Mr. Fout, are nominees for election as a director of the Company. Except as otherwise indicated, the occupation listed has been such person's principal occupation for at least the last five years.

Ellis R. Barber. Mr. Barber is currently Vice President of Cindell Construction Co., Inc., a commercial contractor specializing in metal framing, heavy gauge framing, drywall, acoustical ceilings and carpentry work. Graduating from Damascus High School in 1973, Mr. Barber then entered a four year MECA (Metropolitan Electrical Contractors Association) apprenticeship program. Between 1971 and 1982 he worked for a number of construction-related companies where he gained broad experience in contracting. Mr. Barber subsequently started Cindell Construction in 1983. In 1998 he created another business, CCS, Inc., specializing in commercial maintenance, where he is the President. Mr. Barber is currently active in a number of professional associations. He is a member of both ABC (Associated Builders and Contractors) and AWCI (Association of the Wall and Ceiling Industry). An active community volunteer, Mr. Barber serves on the advisory board of Frederick Memorial Hospital. Mr. Barber's director qualifications include his management skills related the operation of his

construction company and his personal and business contacts in the Frederick market. Mr. Barber joined the Board of Directors in July, 2012.

Emil D. Bennett. Mr. Bennett is currently President and owner of Rock Creek Realty, a full-service real estate firm headquartered in Thurmont, Maryland. Mr. Bennett is currently on the Board of Directors of Mt. Olivet Cemetery and Vice President of Lorelei II Condo Associates in Ocean City. He is very involved in the local community and the National Association of Realtors. Mr. Bennett's director qualifications include his tenure on the Company's board of directors since 2002, including director training on an annual basis.

John N. Burdette. Mr. Burdette is a principal in the Frederick, Maryland, law firm of Offutt, Horman, Burdette and May, P.A., where his practice concentrates on Federal tax law, estate planning, and probate administration. He joined Offutt, Horman & Burdette in 1983 following retirement as a Senior Executive from the Internal Revenue Service. Mr. Burdette received degrees in accounting and law from the University of Baltimore, and is a member of the Maryland Bar. He has served as a Director of several tax-exempt corporations; and is a member of the Rotary Club of Frederick. Mr. Burdette's director qualifications include his tenure on the Company's board of directors since inception in 2001, including director training on an annual basis.

Robert S. Carmack. Mr. Carmack is President and CEO of Carmack Insurance Group (formerly known as Stoffer-Sanner). He is a lifelong resident of Frederick County. Graduating from Frederick High School in 1972, Mr. Carmack studied Business at Frederick Community College before becoming a full time life insurance agent with the Prudential Insurance Company in 1974. In 1975, Mr. Carmack became a licensed life, property & casualty insurance agent with Stoffer-Sanner Insurance Agency. In 1980 Mr. Carmack became Vice-President with Stoffer-Sanner, and since 1996, has served as President and CEO of the Carmack Insurance Group. He has also served as President of the Frederick County Independent Agents Association and the Life Underwriters Association of Frederick County. He is a past President of the Montgomery Insurance Companies Agents Advisory Board and is a current member of the Insurance Agent & Brokers Association of PA, MD and DC and a life member of the Life Underwriters Training Council. An active community volunteer, Mr. Carmack has served on the boards of Gale House, American Cancer Society, United Way of Frederick County and the Cloverhill Swim Club. Mr. Carmack's director qualifications include his management skills related the operation of his insurance agency and his personal and business contacts in the Frederick market. Mr. Carmack joined the Board of Directors in May, 2012.

J. Denham Crum. Mr. Crum is Owner/Manager of Crumland Farms, LLC, Frederick, Maryland, a family business, which he joined in 1968. After graduating from Frederick High School, he attended Frederick Community College, and received his B.S. in Dairy Science from Iowa State University. Mr. Crum has been involved in many farm organizations, including the Farm Bureau, Capital Milk Producers, Maryland Virginia Milk Producers Coop, and the Holstein Freisian Council. His club memberships include the Rotary Club of Frederick, Frederick Jaycees (Director), Frederick Catoctin Club (Director), and Frederick Elks. Mr. Crum has served on the local and corporate boards of the Homewood Retirement Centers and has volunteered his time with the Frederick Community Foundation. He is a member of the Frederick County Planning Commission. He also has served on the Banner School Board, was active in the PTA of Monocacy Middle and Thomas Johnson High Schools, and has volunteered for many church youth activities. Mr. Crum's director qualifications include his tenure on the Company's board of directors since inception in 2001, including director training on an annual basis.

William S. Fout, Sr. Until 2007, Mr. Fout was the President of William S. Fout, Inc., Frederick, Maryland, a crane and rigging service, which he founded in 1973. He is a graduate of Frederick High School and of the Virginia Military Institute with a Bachelor of Science degree in Civil Engineering. Mr. Fout is a Fellow member of the American Society of Civil Engineers and is a registered engineer in both Maryland and Virginia. From 1969 through 1979, he served as the Frederick County Highway Engineer. Mr. Fout was a member of the Frederick County Planning Commission from 1983-1993, acting as chairman during 1993. He currently serves as President of the WSF Family LLLP and Hillmark Property LLC, two (2) local real estate investment entities. Mr. Fout's director qualifications include his tenure on the Company's board of directors since inception in 2001, including director training on an annual basis. Mr. Fout is not standing for re-election at the Meeting.

Helen G. Hahn. Mrs. Hahn has 35 years of banking experience in local community banking, starting her career as a courier with Frederick County National Bank and ultimately reaching the position of Senior Vice President of Operations with FCNB Bank before her retirement in 2001. She currently serves as Assistant Treasurer for the Evangelical Lutheran Church in Frederick. She is also a member of the Board of Directors of The Loats Foundation, which provides scholarship assistance to students attending area colleges and universities. Mrs. Hahn's involvement in the local community includes many years of service on the United Way's Allocation Committee. She is a member of the Evangelical Lutheran Church, where she is an active participant in the music ministry of the church. Mrs. Hahn resides in Frederick County. Mrs. Hahn, who has served on the Board of Directors since 2004, is not standing for re-election at the Meeting.

Martin S. Lapera. Mr. Lapera, a resident of Frederick County, Maryland, is President and Chief Executive Officer of the Company. Mr. Lapera was Executive Vice President of FCNB Corp, Frederick, Maryland, until its acquisition by BB&T Corporation in January 2001, and Executive Vice President, Chief Operating Officer and Chief Lending Officer of FCNB Bank, its $1.6 billion subsidiary, and Senior Vice President and Senior Credit Officer of the Potomac region of BB&T Bank (comprised primarily of Frederick County), until May 2001. Mr. Lapera has been served on the Company's board of directors since inception in 2001. Prior to joining FCNB Bank in 1985, Mr. Lapera was Vice President of First National Bank of Maryland. Mr. Lapera received a degree in Business from Towson State University and an MBA from the University of Baltimore.

Kenneth G. McCombs. Mr. McCombs is a 50% owner and President of Miscellaneous Metals, Inc., Frederick, Maryland, a steel fabrication and erection business with annual sales of approximately $14 million, which he co-founded in 1977. He attended the Columbia Technical School of Arlington, Virginia and the Washington School of Drafting, in Washington, DC. Mr. McCombs' director qualifications include his tenure on the Company's board of directors since inception in 2001, including director training on an annual basis.

Farhad Memarsadeghi. Mr. Memarsadeghi is currently Chief Executive Officer and owner of Admar Custom Homes, Inc., President of Memar Corp. (formerly Admar Construction, Inc.) and a general partner in several affiliated partnerships. Mr. Memarsadeghi moved to Maryland in 1979 and established Admar Construction, Inc. During the past 31 years, Mr. Memarsadeghi and his firms have developed several subdivisions and hundreds of residential units in and around Frederick and Washington Counties in Maryland. He graduated from Tehran University with a Master's Degree in Architecture. He is very involved in the local community, and is currently a member of the National Association of Home Builders. Mr. Memarsadeghi's director qualifications include his tenure on the Company's board of directors since 2002, including director training on an annual basis.

Raymond Raedy. Mr. Raedy was the primary organizer of the Bank. He is an investor and business owner. Since 1980, Mr. Raedy has owned several businesses. He currently is a partner in one pharmacy and owns a real estate investment firm. He is a graduate of the University of Notre Dame and the Washington College of Law at the American University. He is a member of the Maryland Bar,

but has not engaged in the practice of law since 1983. Mr. Raedy has held positions at the American Enterprise Institute, the Republican National Committee, the Maryland Legislature, and the United States Senate in the Sergeant at Arms Office. He has been Counsel to the National Society of Public Accountants, the Health Insurance Association of America, the American Bankers Associations, and an insurance brokerage firm, Alexander & Alexander. Mr. Raedy has been a lector at his church and served as President of the Rotary Club of Frederick, Maryland. Mr. Raedy's director qualifications include his past service as a counsel to the American Bankers Association, his knowledge of banking practices and regulatory issues, and his tenure on the Company's board of directors since inception in 2001, including director training on an annual basis.

Executive Officers Who Are Not Directors

Set forth below is certain information regarding Mr. Talley, the only executive officer of the Company who is not a director of the Company.

William R. Talley, Jr. Mr. Talley, Executive Vice President, Chief Financial Officer and Chief Operating Officer of the Company and the Bank since 2010, was previously Executive Vice President and Chief Financial Officer of the Bank. Prior to joining the Bank, he was Comptroller and Assistant Treasurer of FCNB Corp, Frederick, Maryland, until its acquisition by BB&T Corporation in January 2001, and Senior Vice President and Comptroller of FCNB Bank, its $1.6 billion subsidiary, until the merger of FCNB Bank into BB&T Bank in March 2001. He received his BS in Accounting from Mount Saint Mary's College and is a member of the American Institute of Certified Public Accountants. He is also the Treasurer and Chair of the Finance Committee for the Board of Trustees for the Frederick Community College Foundation, a member of the Investment Committee of the Board of Trustees for the Record Street Home for the Aged, former Treasurer of Rotary International District 7620 and a member of the Rotary Club of Carroll Creek.

Meetings, Committees and Procedures of the Board of Directors

Meetings. The Board of Directors of the Company met twelve (12) times during 2012. All members of the Board of Directors attended at least 75% of the meetings held by the Board of Directors and by all committees on which such member served during the 2012 fiscal year or any portion thereof.

Audit Committee. The Board of Directors has a standing Audit Committee. The Audit Committee assists the Board of Directors of the Company in exercising its fiduciary responsibilities for oversight of audit and related matters, including corporate accounting, internal controls and regulatory compliance. Its duties include: monitoring the Company's internal controls and procedures; recommending the selection of the independent registered public accounting firm; reviewing the scope of audits conducted by the independent registered public accounting firm, as well as the results of their audits; and reviewing policies relating to compliance with applicable banking and other laws. The Board of Directors has adopted a written charter for the Audit Committee, a copy of which is located on the Company's website at www.fcbmd.com. The Audit Committee is currently comprised of Messrs. Bennett (Chairman), Burdette, Carmack, Fout and Memarsadeghi. Each of the members of the Audit Committee is independent, as determined under NASDAQ Rule 5605(a)(2) and Rule 5605(c)(2)(A). During the 2012 fiscal year, the Audit Committee met six (6) times.

The audit committee is also responsible for the pre-approval of all non-audit services provided by the Company's independent registered public accounting firm. Non-audit services are only provided by the Company's auditors to the extent permitted by law. Pre-approval is required unless a *"de minimus"* exception is met. To qualify for the *"de minimus"* exception, the aggregate amount of all such services provided to the Company must constitute not more than five percent of the total amount of revenues paid by the Company to its independent registered public accounting firm during the fiscal year in

which the non-audit services are provided; such services were not recognized by the Company at the time of the engagement to be non-audit services; and the non-audit 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 to whom authority to grant such approval has been delegated by the committee.

The Company does not currently have a director serving on the audit committee who it believes is an audit committee financial expert. It is the Company's desire to have its audit committee members to be not only independent, within the meaning of NASDAQ Rule 5605(c)(2)(A), but also to be free of any financial or other relationships with the Company which are permitted under that definition, other than service on the Board of Directors and committees, share ownership and ordinary course banking relationships. The Board of Directors does not currently have any members who would qualify as an audit committee financial expert, and who meets this additional standard. While the Company is not averse to having a person who qualifies as an audit committee financial expert serving on the audit committee, it does not intend to appoint a new director solely for this purpose if such person would not also have the other qualities necessary or desirable for a successful director.

Nominating Committee. The Board of Directors has a standing Corporate Governance and Compensation Committee which performs the functions of the nominating committee and recommends nominees for election as director to the Board of Directors. The committee is currently comprised of Mrs. Hahn and Messrs. Barber, Crum and McCombs (Chairman). All of the members of the Corporate Governance and Compensation Committee are independent directors within the meaning of NASDAQ Rule 5605(a)(2). The committee, which met six (6) times in 2012, does not have a charter.

When the Board has determined that expansion of the Board or replacement of a director was necessary or appropriate, the Board reviews, through candidate interviews with members of the Board and management, consultation with the candidate's associates and through other means, a candidate's honesty, integrity, reputation in and commitment to the community, judgment, personality and thinking style, willingness to invest in the Company, residence, willingness to devote the necessary time, potential conflicts of interest, independence, understanding of financial statements and issues, and the willingness and ability to engage in meaningful and constructive discussion regarding Company issues. The Board reviews any special expertise, for example, expertise that qualifies a person as an audit committee financial expert, and membership or influence in a particular geographic or business target market, or other relevant business experience.

The committee will consider director candidates nominated by shareholders during such times as the Company is actively considering obtaining new directors. Candidates recommended by shareholders will be evaluated by reviewing, through candidate interviews with members of the Board and management, consultation with the candidate's associates and through other means, a candidate's honesty, integrity, reputation in and commitment to the community, judgment, personality, and thinking style, willingness to invest in the Company, residence, willingness to devote the necessary time, potential conflicts of interest, independence, understanding of financial statements and issues, and the willingness and ability to engage in meaningful and constructive discussion regarding Company issues. The committee would also review any special expertise, for example, expertise that qualifies a person as an audit committee financial expert, and membership or influence in a particular geographic or business target market, or other relevant business experience.

The Board will consider director candidates nominated by shareholders during such times as the Company is actively considering obtaining new directors. Shareholders who want to suggest a candidate for consideration should send a letter, addressed to:

Chairman
Corporate Governance and Compensation Committee
Frederick County Bancorp, Inc.
P.O. Box 1100
Frederick, MD 21702-0100

The letter must include the following: (1) a statement that the writer is a shareholder and is proposing a candidate for consideration; (2) the name and contact information for the candidate; (3) a statement of the candidate's business and educational experience; (4) information regarding the candidate's qualifications to be director; (5) information regarding any relationship or understanding between the proposing shareholder and the candidate; and (6) a statement that the candidate is willing to be considered and willing to serve as director if nominated and elected. Because of the limited resources of the Company and the limited occasion to seek additional directors, there is no assurance that: all shareholder proposed candidates will be fully considered, all candidates will be considered equally, or the proponent of any candidate or the proposed candidate will be contacted by the Chairman, and no undertaking to do so is implied by the willingness to consider candidates proposed by shareholders. Nominations must be received by November 1 to be considered for director elections to be held the following year. To date, the Company has not paid any fee to any third party to identify or evaluate, or to assist it in identifying or evaluating potential nominees.

Compensation Committee. The Corporate Governance and Compensation Committee performs the function of a compensation committee. The Committee is responsible for making recommendations to the Board of Directors regarding executive compensation, incentive compensation awards and plans, and stock based compensation awards and plans. Final determinations regarding executive officer compensation, stock based compensation awards, and incentive compensation awards are made by the independent members of the Board of Directors. The Board of Directors sets compensation levels for directors. To date, no compensation consultant has been engaged to assist the Committee or the Board of Directors in connection with establishing executive compensation.

The Chief Executive Officer makes recommendations to the Committee regarding the level of compensation of the Chief Financial Officer. The Chief Executive Officer and Chief Financial Officer recommend performance targets for purposes of the Company's annual incentive payments.

Board Leadership Structure and Risk Oversight Role. The role of Chairman of the Board of Directors and President/Chief Executive Officer of the Company are not currently held by the same person. The Chairman of the Board is not involved in the day to day management of the Company or the Bank. He is considered as a liaison between management and the outside directors. The foregoing structure is not mandated by any provision of law or our articles of incorporation or bylaws, but the Board of Directors currently believes that this structure provides for an appropriate balance of authority between management and the Board. The Board of Directors reserves the right to establish a different structure in the future.

The Board of Directors of the Company, all of the members of which are also members of the Board of Directors of the Bank, is actively involved in the Company's and Bank's risk oversight activities, through the work of numerous committees of the Company and Bank, and the policy approval function of the Board of Directors of the Bank.

Compensation Committee Interlocks and Insider Participation. No member of the Corporate Governance and Compensation Committee has served as one of our officers or employees at any time. None of our executive officers serve as a member of the compensation committee of any other company that has an executive officer serving as a member of our Board of Directors. None of our executive officers serve as a member of the board of directors of any other company that has an executive officer serving as a member of the Corporate Governance and Compensation Committee. Except for loans and deposit transactions in the ordinary course of business made on substantially the same terms, including interest rates and collateral, as those for comparable transactions with unaffiliated parties, and not presenting more than the normal risk of collectability or other unfavorable features, no member of the Corporate Governance and Compensation Committee or any of their related interests has any material interest in any transaction involving more than $120,000 to which the Company is a party.

Shareholders Communications with Board. Any shareholder is free to communicate in writing with the Board of Directors on matters pertaining to the Company by addressing their comments to:

Chairman of the Board
Frederick County Bancorp, Inc.
P.O. Box 1100
Frederick, MD 21702-0100

Your letter must state you are a shareholder. The nature of the communication will determine to whom your letter will be forwarded. Based on the nature of the communication, there is no assurance that all communications will receive a response.

Director Attendance at the Annual Meeting. It is the policy of the Company that all directors should attend each annual meeting of shareholders. Nine (9) of the directors in office at the time of the 2012 annual meeting of shareholders attended that meeting.

Audit Committee Report

The Audit Committee has been appointed to assist the Board of Directors in fulfilling the Board's oversight responsibilities by reviewing the financial information that will be provided to the shareholders and others, the systems of internal controls established by management and the Board and the independence and performance of the Company's audit process.

The Audit Committee has:

(1) reviewed and discussed with management the audited financial statements included in the Company's Annual Report on Form 10-K;

(2) discussed with Stegman & Company, the Company's independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and

(3) received the written disclosures and letter from Stegman & Company as required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, and has discussed with Stegman & Company its independence.

Based on these reviews and discussions, the Audit Committee has 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, 2012. The Audit Committee has also considered whether the amount and nature of non-audit services provided by Stegman & Company is compatible with the auditor's independence.

Members of the Audit Committee

Emil D. Bennett (Chairman)
Robert S. Carmack
William S. Fout, Sr.
John N. Burdette
Farhad Memarsadeghi

Directors' Compensation

The following table sets forth information regarding compensation paid to, or earned by, non-employee directors of the Company during the fiscal year ended December 31, 2012 for service as

members of the Company and Bank Boards of Directors. Members of the Board of Directors who are employees do not receive additional cash compensation for service on the Board of Directors.

Name	Fees Earned or Paid in Cash ($)	Option Awards(1)(2)	Stock Awards(1)(2)	All Other Compensation	Total ($)
Ellis Barber	$ 4,300	$—	$—	$—	$ 4,300
Emil D. Bennett	$13,100	$—	$—	$—	$13,100
John N. Burdette	$12,500	$—	$—	$—	$12,500
Robert S. Carmack	$ 8,200	$—	$—	$—	$ 8,200
J. Denham Crum	$11,900	$—	$—	$—	$11,900
William S. Fout, Sr.	$11,500	$—	$—	$—	$11,500
Helen G. Hahn	$12,100	$—	$—	$—	$12,100
Kenneth G. McCombs	$11,400	$—	$—	$—	$11,400
Farhad Memarsadeghi	$13,200	$—	$—	$—	$13,200
Raymond Raedy	$13,000	$—	$—	$—	$13,000

(1) Represents the grant date fair value of awards of options (in the case of Option Awards) and awards of restricted stock or restricted stock units (in the case of Stock Awards). No stock based compensation was awarded to directors during 2012.

(2) At December 31, 2012, the non-employee directors had outstanding option awards, vested and unvested, to purchase shares of common stock as follows: Mr. Barber—0; Mr. Bennett—5,000; Mr. Burdette—6,000; Mr. Carmack—0; Mr. Crum—5,000; Mr. Fout—5,000; Mrs. Hahn—5,000; Mr. McCombs—5,000; Mr. Memarsadeghi—5,000; Mr. Raedy—2,410. No awards of restricted stock or restricted stock units have been issued to directors to date.

During 2012, the non-employee directors of the Bank received a retainer fee in the amount of $6,000, a fee of $400 for each monthly Board of Directors meeting and a fee of $100 for each committee meeting. The directors did not receive any additional compensation for the Company's Board of Directors or committee meetings. Directors may elect to defer receipt of director fees and bonus under the Frederick County Bank Executive and Director Deferral Compensation Plan, discussed below. To date, no director has deferred any amount.

The fees paid for director board meetings and committee meetings are based on comparable amounts paid by other financial institutions in the Company's geographic market area. Bonuses, if any, are discretionary, and are based on the extent to which the Bank achieves annual performance objectives including net income and return on equity goals. The bonus pool is determined in the same manner as the employee plan and is distributed based on the percentage of board meetings attended by each director as compared to the total number of board meetings for the entire board of directors as a group. In 2012, no bonuses were paid to the Company's directors.

EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION TABLES

The following table sets forth a comprehensive overview of the compensation for Mr. Lapera, the President and CEO of the Company, and Mr. Talley, the EVP, CFO & COO of the Company, the only executive officers who received total salary and bonuses of $100,000 or more during the fiscal year ended December 31, 2012, referred to as our "named executive officers."

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus(1)	Stock Awards(2)	Option Awards(2)	All Other Compensation	Total
Martin S. Lapera, Director	2012	$234,790	$—	$—	$26,394	$23,742(3)	$284,926
President and Chief Executive Officer of the Company and the Bank	2011	$230,000	$—	$—	$ —	$23,076(4)	$253,076
William R Talley, Jr.,	2012	$179,656	$—	$—	$19,795	$17,835(5)	$217,286
Executive Vice President, Chief Financial Officer and Chief Operating Officer of the Company and the Bank	2011	$176,000	$—	$—	$ —	$15,085(6)	$191,085

(1) Amounts shown as bonus compensation accrue in the year indicated and are paid in the following year.

(2) Represents the grant date fair value of awards of options (in the case of Option Awards) and awards of restricted stock or restricted stock units (in the case of Stock Awards). Stock based compensation awards for 2012 consisting of options to acquire 10,000 and 7,500 shares of the Company's common stock, were granted to Mr. Lapera and Mr. Talley, respectively. Please refer to note 10 to the Company's Consolidated Financial Statements for the year ended December 31, 2012 for a discussion of the assumptions used in calculating the grant date fair value.

(3) Includes $9,559 in 401(k) matching contributions, $10,000 car allowance and $4,183 insurance premiums.

(4) Includes $9,361 in 401(k) matching contributions, $10,000 car allowance and $3,716 insurance premiums.

(5) Includes $7,583 in 401(k) matching contributions, $7,000 car allowance and $3,252 insurance premiums.

(6) Includes $7,320 in 401(k) matching contributions, $5,000 car allowance, and $2,764 insurance premiums.

During 2012, the Company granted stock options to the named executive officers. No shares of restricted stock or restricted stock units under the 2011 Stock Incentive Plan were awarded to the named executives in 2012. The Company does not maintain any non-equity incentive plans or compensation programs (other than discretionary bonuses), and does not maintain any defined benefit retirement plans. While the Company maintains a deferred compensation plan under which named executive officers may defer receipt of compensation, no amounts have been deferred under the 2001 Plan by any named executive officer, and as such, no executive officer received any income on any deferred compensation during 2012.

Grants of Plan-Based Awards

The following table presents information regarding awards made during 2012 to the named executive officers under the Company's 2011 Stock Incentive Plan. As of December 31, 2012, there were no shares of restricted stock or restricted stock units held by any named executive officer.

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards(1)
Martin S. Lapera	4/17/2012	10,000	$11.10	$26,394
William R. Talley, Jr.	4/17/2012	7,500	$11.10	$19,795

(1) Please refer to Note 10 to the Company's Consolidated Financial Statements for the year ended December 31, 2012 for a discussion of the assumptions used in calculating the grant date fair value.

Outstanding Equity Awards at Fiscal Year-End

The following table shows the outstanding equity awards as of December 31, 2012 for the named executive officers.

Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date
Martin S. Lapera	20,000(1)	—	—	$11.35	4/13/2020
	3,000(2)	7,000(2)	—	$11.10	4/17/2022
William R. Talley, Jr. . .	10,000(3)	—	—	$11.35	4/13/2020
	2,250(4)	5,250(4)	—	$11.10	4/17/2022

(1) Award of options to purchase 20,000 shares of common stock vested as follows: 30% upon grant, 30% upon first anniversary of grant and 40% upon second anniversary of grant.

(2) Award of options to purchase 10,000 shares of common stock vested as follows: 30% upon grant, 30% upon first anniversary of grant and 40% upon second anniversary of grant.

(3) Award of options to purchase 10,000 shares of common stock vested as follows: 30% upon grant, 30% upon first anniversary of grant and 40% upon second anniversary of grant.

(4) Award of options to purchase 7,500 shares of common stock vested as follows: 30% upon grant, 30% upon first anniversary of grant and 40% upon second anniversary of grant.

Base Salary. Mr. Lapera's base salary increased in 2012 by 3.00% to $236,919. The base salary of the other named executive officer, William R. Talley, Jr., EVP, CFO and COO, also increased by 3.00%, to $181,280.

Bonuses. Bonuses are discretionary and are generally granted to named executive officers based on the extent to which the Bank achieves annual performance objectives as established by the Board of Directors. Bank performance objectives include net income and return on equity goals. Bonuses are accrued throughout the year and are generally paid before the end of January in the subsequent year.

In 2012, there were no bonuses paid to the Company's named executive officers because the goals were not met.

Stock Based Compensation. The Company believes that the granting of options, along with the granting of shares of restricted stock and awards of restricted stock units, is the most appropriate form of long-term compensation to executive officers, since it believes that equity interests in the Company held by executive officers aligns the interests of shareholders and management. This approach is designed to provide incentives for the creation of shareholder value over the long term since the full benefit of this component of the compensation package cannot be realized unless stock price appreciation occurs over a number of years. Stock option grants and awards of restricted stock or restricted stock units are discretionary and are limited by the terms and conditions of the Company's 2001 Stock Option Plan and 2011 Stock Incentive Plan.

All Other Compensation. All other compensation for the named executive officers includes 401(k) matching contributions, car allowances and insurance premiums. The 401(k) matching contributions for all eligible employees of the Company in 2012 and 2011 was 100% of the first 4% of compensation. The car allowance has been based on amounts paid by other companies for this benefit. The insurance premiums are for short-term disability, long-term disability, supplemental life insurance and split-dollar life insurance. These amounts for Mr. Lapera during 2012 are as follows: $9,559 in 401(k) matching contributions, $10,000 car allowance and $4,183 of insurance premiums. These amounts for Mr. Talley during 2012 are as follows: $7,583 in 401(k) matching contributions, $7,000 car allowance and $3,252 of insurance premiums.

Employment Agreements and Benefit Plans

Employment Agreements. Mr. Lapera has an employment agreement with the Company pursuant to which he serves as President and Chief Executive Officer of the Company. Mr. Lapera's agreement, as amended, runs until October 1, 2013. Under his agreement, Mr. Lapera is entitled to a current annual base salary of $236,919 during 2012. He is also entitled to $1,100,000 of Company paid life insurance (at standard rates), and participation in all other health, welfare, benefit, stock option and bonus plans, if any, generally available to officers or employees of the Company.

Mr. Talley has an employment agreement with the Company pursuant to which he serves as Executive Vice President, Chief Financial Officer and Chief Operating Officer of the Company. Mr. Talley's agreement, as amended, runs until October 1, 2013. Under his agreement, Mr. Talley is entitled to a current annual base salary of $181,280 during 2012. He is also entitled to $900,000 of Company paid life insurance (at standard rates), and participation in all other health, welfare, benefit, stock option and bonus plans, if any, generally available to officers or employees of the Company.

If either Mr. Lapera's or Mr. Talley's employment is terminated without cause for reasons other than death, disability or in connection with a change in control (as defined), they would be entitled to receive continued payment of base salary through the end of the term of their agreements, and continued car allowance, life insurance and health and disability insurance benefits for the remainder of the term, subject to their compliance with certain non-compete provisions of the employment agreements. If their employment were terminated under such circumstances as of December 31, 2012, their continued payments would be based on their current salaries of $236,919 and $181,280 for Mr. Lapera and Mr. Talley, respectively, and they would receive approximately $195,689 and $152,460, respectively. Under the non-compete provisions of the their agreements, following such a termination, Mr. Lapera and Mr. Talley have agreed that for 180 days after their last day of employment they will

not, directly or indirectly, in any capacity render any services to a bank or savings and loan or a holding company of a bank or savings and loan with respect to any office, branch or other facility located within a thirty-five (35) mile radius of the Bank's headquarters, and will not induce or attempt to induce any person that has a business relationship with the Bank or any of its subsidiaries and affiliates to discontinue, terminate or reduce the extent of their relationship with the Bank or to take any action that would disrupt or otherwise be disadvantageous to any such relationship.

In the event of termination of their employment, or material reduction in their compensation or position or responsibilities within 120 days after a change in control, or the voluntary termination of employment within the 30 day period following such 120 day period after a change in control, Mr. Lapera and Mr. Talley would be entitled to receive lump sum payments equal to 2.99 times their base salaries, plus health insurance premiums for a twelve month period following termination, subject to adjustment to avoid adverse tax consequences resulting from characterization of such amount for tax purposes as a "parachute payment." If Mr. Lapera and Mr. Talley were entitled to receive such payments as of December 31, 2012, Mr. Lapera would receive a lump sum payment of approximately $660,478, and Mr. Talley would be entitled to receive a lump sum payment of approximately $513,979.

Employee Benefit Plans. The Company provides a benefit program, which includes health and dental insurance, life and long term and short-term disability insurance, a 401(k) plan for substantially all full time employees, and an Executive and Director Deferred Compensation Plan. The Company also maintains the 2001 Stock Option Plan and the 2011 Stock Incentive Plan.

401(k) Profit Sharing Plan. The Company has a Section 401(k) profit sharing plan (the "401(k) Plan") covering employees meeting certain eligibility requirements as to minimum age and years of service. Employees may make voluntary contributions to the 401(k) Plan through payroll deductions on a pre-tax basis. The Company may make discretionary contributions to the 401(k) Plan based on the Company's earnings. The Company's contributions are subject to a vesting schedule (20 percent per year) requiring the completion of five years of service with the Company before these benefits are fully vested. A participant's account under the 401(k) Plan, together with investment earnings thereon, is normally distributable following retirement, death, disability or other termination of employment, in a single lump-sum payment. The Company made $126,000 in contributions to the 401(k) Plan in 2012.

Deferred Compensation Plan. On January 28, 2002, the Board of Directors of the Bank approved the Frederick County Bank Executive and Director Deferred Compensation Plan (the "Deferral Plan"). The Deferral Plan was effective January 1, 2002 for certain executive employees and directors of the Bank. The purpose of the Deferral Plan is to (1) allow participants an opportunity to elect to defer the receipt of compensation ("Participant Compensation Deferral"), and (2) provide a vehicle for the Bank to credit amounts on a tax deferred basis for employee participants ("Employer Contribution Credit"). Compensation eligible for deferral include base salary, bonuses and director fees. Employer Contribution Credits are subject to various vesting restrictions and are available solely to Plan participants who are employees of the Bank. The Deferral Plan is intended to be a "top hat" plan under various provisions of the Employee Retirement Income Security Act of 1974, as amended.

Each Deferral Plan participant's account will be adjusted for credited interest or increases or decreases in the realizable net asset value, as applicable, of the designated deemed investments. Benefit payments under the Deferral Plan, which in the aggregate equal the participant's vested account balance, will be paid in a lump sum or in five or ten substantially equal, annual installments, commencing on the date or dates selected by the participants. There were no amounts deferred by any director or named executive officer, or any Employer Contribution Credits awarded in 2012.

Stock Based Compensation Plans. The Company maintains the 2001 Stock Option Plan, adopted by shareholders at the 2002 annual meeting and the 2011 Stock Incentive Plan, adopted by shareholders at the 2011 annual meeting (the "Stock Plans"), to attract, retain, and motivate key

officers and directors of the Company by providing them with a stake in the success of the Company as measured by the value of its shares.

The Stock Plans are administered by a committee (the "Committee"), appointed by the Board of Directors, consisting of not less than three (3) members of the Board who are not employees. The Corporate Governance and Compensation Committee performs the functions of the Committee under the Stock Plans. In the absence at any time of a duly appointed Committee, the Stock Plans will be administered by the full Board of Directors.

The purpose of the Stock Plans is to advance the interests of the Company by providing directors and selected key employees of the Company with the opportunity to acquire shares of common stock. By encouraging such stock ownership, the Company seeks to attract, retain and motivate the best available personnel for positions of substantial responsibility and to provide additional incentive to directors and key employees of the Company and any affiliate to promote the success of the business as measured by the value of its shares, and to increase the commonality of interests among directors, key employees and other shareholders.

Under the Stock Plans, 352,840 shares of common stock are reserved for issuance upon the exercise of Options (as hereinafter defined) granted under the Stock Plans, or awards of restricted stock or restricted stock units awarded under the 2011 Stock Incentive Plan. As of December 31, 2012, the Company had Options for the purchase of 152,840 shares of common stock issued and outstanding under the Stock Plans. No shares of restricted stock or restricted stock units had been awarded as of December 31, 2012. As of the date hereof, 200,000 shares of common stock remain available for awards pursuant to the 2011 Stock Incentive Plan. No further awards may be made under the 2001 Stock Option Plan.

Under the Stock Plans, the Committee may grant incentive stock options ("ISOs") or non-incentive stock options ("Non-ISOs") to such key employees as the Committee may designate, and may grant Non-ISOs to directors of the Company. ISOs and Non-ISOs are collectively referred to as "Options." Under the 2011 Stock Incentive Plan, the Committee may grant shares of restricted stock or restricted stock units to employees and directors. In the event of any merger, consolidation, recapitalization, reorganization, reclassification, stock dividend, split-up, combination of shares or similar event in which the number or kind of shares is changed without receipt or payment of consideration by the Company, the Committee will adjust both the number and kind of shares of stock as to which Options or other awards may be granted under the Stock Plans, the affected terms of all outstanding awards, and the aggregate number of shares of common stock remaining available for grant under the Stock Plans. If any award expires, becomes unexercisable or is forfeited for any reason without having been exercised or becoming vested in full, the shares of common stock subject to such awards will be available for the grant of additional awards unless the Stock Plans have expired or otherwise been terminated.

The exercise price of Options may not be less than 100% of the fair market value of the common stock on the date of grant. In the case of an optionee who owns more than 10% of the outstanding common stock on the date of grant, the option price may not be less than 110% of fair market value of the shares. As required by federal tax laws, to the extent that the aggregate fair market value (determined when an ISO is granted) of the common stock with respect to which ISOs are exercisable by an optionee for the first time during any calendar year (under all plans of the Company) exceeds $100,000, the Options will be treated as Non-ISOs, and not as ISOs. A Participant may, under the Option Plans, receive additional options notwithstanding the earlier grant of options and regardless of their having been exercised, expired, or surrendered.

No further awards may be made under the 2001 Stock Option Plan, although outstanding Options under that plan will remain in effect until their exercise or termination. The 2011 Stock Incentive Plan has a term of 10 years from April 13, 2011, its effective date, after which date no further awards may

be made. The maximum term for an Option is 10 years from its date of grant, except that the maximum term of an ISO may not exceed five years if the optionee owns more than 10% of the common stock on the date of grant.

TRANSACTIONS WITH RELATED PARTIES

During the past two fiscal years, the Company has had, and the Company expects to have in the future, banking transactions in the ordinary course of business with its directors and officers, and other related parties. These transactions have been made on substantially the same terms, including interest rates, collateral, and repayment terms, as those prevailing at the same time for comparable transactions with unaffiliated parties. The extensions of credit to these persons have not and do not currently involve more than the normal risk of collectability or present other unfavorable features. At December 31, 2012 and 2011, loans to directors and officers and their related parties, including loans guaranteed by such persons, aggregated $8.45 million and $3.44 million, respectively, which represented approximately 32.18% and 13.52% of shareholders' equity, respectively. None of these loans or other extensions of credit are disclosed as nonaccrual, past due, restructured or potential problem loans.

The Company entered into a new lease in July 2011 for approximately 10,521 square feet of office space owned by a limited liability company of which Messrs. Burdette, Lapera and Raedy are members. The lease term commenced on July 11, 2011 and will expire on July 10, 2016. Under this lease, monthly payments for the period July 11, 2012 to July 10, 2013 are $14,583. The Company believes that the lease is on terms which are at least as favorable to the Company as could be obtained in a transaction with an unaffiliated third party.

Under the Company's Corporate Governance policy, the Corporate Governance and Compensation Committee is required to review all related party transactions, excluding insider loans, which are approved by the full Board of Directors, and with any interested director not participating in the approval process, for potential conflicts of interest. All related party transactions relationships must be on terms not materially less favorable than what would be usual and customary in similar transactions between unrelated persons dealing at arms' length. To the extent such transactions are ongoing business relationships with the Company, such transactions are reviewed annually. Related party transactions are those involving the Company and the Bank, which are required to be disclosed pursuant to SEC Regulation S-K, Item 404.

The Company maintains written policies and procedures to strictly control all loans to insiders in accordance with Federal law (Regulation O). Insiders include any executive officer, director, or principal stockholder and entities which such persons control. All loans and commitments to make loans to such persons by the Bank were made in the normal course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than a normal risk of collectability or present other unfavorable features.

PROPOSAL 2—RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has selected Stegman & Company ("Stegman") as the Company's independent registered public accounting firm to audit the Company's financial statements for the fiscal year ending December 31, 2013. The Company has been advised by Stegman that neither that firm nor any of its associates has any relationship with the Company, other than the usual relationship that exists between independent accountants and clients. Stegman audited the financial statements of the Company for the year ended December 31, 2012. Representatives of Stegman are expected to be present at the meeting and available to respond to appropriate questions. The representatives also will be provided with an opportunity to make a statement, if they desire.

Services provided to the Company and its subsidiaries by Stegman in 2012 are described under "Fees Paid to Independent Accounting Firm" below. Additional information regarding the Audit Committee is provided in the Report of the Audit Committee and under the caption "Election of Directors—Meetings, Committees and Procedures of the Board of Directors."

The Board of Directors recommends that shareholders vote FOR the ratification of the appointment of Stegman as the Company's independent registered public accounting firm. The affirmative vote of a majority of votes cast on the proposal is required for adoption of the ratification of the appointment of the independent registered public accounting firm. If the shareholders fail to ratify this appointment, the Audit Committee will reconsider whether to retain Stegman, and may retain Stegman or another firm, without resubmitting the matter to shareholders.

Fees Paid to Independent Accounting Firm

The following table presents fees for professional services rendered by Stegman for the audit of the Company's annual consolidated financial statements for the years ended December 31, 2012 and 2011 and fees billed for other services rendered by Stegman. Except as set forth below, Stegman did not bill the Company for any other products or services during the years presented.

	2012	2011
Audit Fees(1)	$72,618	$70,839
Audit-Related Fees(2)	$ —	$ —
Tax Services(3)	$ 6,240	$ 6,000

(1) Audit fees consist of fees for professional services rendered for the audit of the Company's consolidated financial statements and review of consolidated financial statements included in the Company's quarterly reports and services normally provided by the independent auditor in connection with statutory and regulatory filings or engagements.

(2) Audit-related fees are fees for professional services rendered for technical accounting consulting and research.

(3) Tax services fees consist of compliance fees for the preparation of federal and state tax returns.

None of the engagements of Stegman to provide services other than audit services was made pursuant to the "*de minimus*" exception to the pre-approval requirement contained in the rules of the Securities and Exchange Commission and the Company's audit committee charter.

PROPOSAL 3—NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION

Section 14A of the Securities Act of 1934, added as Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the rules of the Securities and Exchange Commission adopted thereunder ("Section 14A"), requires that not less than once every three years, a separate, advisory, shareholder resolution to approve the compensation of executives, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, must be included in the Company's proxy materials for the annual meeting. As a result, the Company is providing shareholders with the opportunity to cast a non-binding advisory vote at the Meeting to approve the compensation of the Company's executives. This proposal, commonly known as a "Say-on-Pay" proposal, gives shareholders the opportunity to endorse or not endorse our executive pay program through the following resolution:

> RESOLVED, that the shareholders approve the compensation of the Company's named executive officers, as disclosed in this proxy statement for the 2013 Annual Meeting pursuant to the rules of the Securities and Exchange Commission, which disclosure includes the tabular disclosure regarding named executive officer compensation and the accompanying narratives.

Because this vote is advisory, it will not be binding upon the Board of Directors. However, the Corporate Governance and Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements. Under Section 14A, the vote may not be construed as overruling a decision by the Company or the Board of Directors, changing or implying any change in the fiduciary duties of the Company or the Board of Directors; or creating or implying any additional fiduciary duty of the Company or the Board of Directors.

Shareholders are encouraged to read the section of this proxy statement titled "Executive Compensation," including the tabular disclosure regarding named executive officer compensation, together with the accompanying narrative disclosure.

Vote Required and Recommendation of the Board of Directors. The affirmative vote of a majority of the votes cast at the meeting on the proposal is required for the approval of this resolution. It is expected that all of the shares of the common stock entitled to vote on the proposal over which directors of the Company exercise voting power will be voted for the proposal. We believe our compensation policies are strongly aligned with the long-term interests of the Company and its shareholders. As such, the Board of Directors recommends that shareholders vote **FOR** approval of this non-binding advisory resolution.

PROPOSAL 4—NON-BINDING ADVISORY VOTE REGARDING FREQUENCY OF VOTES ON EXECUTIVE COMPENSATION

Pursuant to Section 14A, the Company is also providing shareholders with the opportunity to cast a non-binding advisory vote at the Meeting on whether a non-binding advisory shareholder resolution to approve the compensation of the Company's named executive officers (the "Say-on-Pay" advisory vote in Proposal 3 above) should occur every year, every two years or every three years. The Company is required to present this issue to shareholders not less than once every six years.

Shareholders should mark their proxy cards or voting forms to indicate whether they want Say-on-Pay votes to occur every year, every two years or every three years, or if they wish to abstain.

After careful consideration, the Board of Directors recommends that future shareholder "Say-on-Pay" advisory votes on executive compensation be conducted every year. The recommendation is based upon the premise that named executive officer compensation is evaluated, adjusted and approved on an annual basis by the Board of Directors upon a recommendation from the Corporate Governance and Compensation Committee and the belief that investor sentiment should be a factor taken into consideration by that committee in making its annual determinations. The Board of

Directors considers the Say-on-Pay vote as a direct communication vehicle with the Company's shareholders, and believes that such communication should be consistent and timely.

As such, the Board of Directors recommends that shareholders vote for having future Say-on-Pay votes **every year**. Shareholders should note that they are being asked to indicate how often they want future votes to occur, and are not engaging in an up or down vote on the Board's recommendation.

Because this vote is advisory, it will not be binding upon the Board of Directors. However, the Board of Directors will take into account the views expressed by shareholders when considering how often to hold future Say-on-Pay votes. Under Section 14A, the vote may not be construed as overruling a decision by the Company or the Board of Directors, changing or implying any change in the fiduciary duties of the Company or the Board of Directors; or creating or implying any additional fiduciary duty of the Company or the Board of Directors.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than ten percent of the common stock, to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission, and to provide the Company with copies of all Forms 3, 4, and 5 they file.

Based solely upon the Company's review of the copies of the forms which it has received, and written representations from the Company's directors and executive officers, the Company is not aware of any failure of any such person to comply with the requirements of Section 16(a) except that a Form 3 for Mr. Carmack, and one Form 4 for each of Mr. Lapera and Mr. Talley reporting a grant of options, were not filed on a timely basis.

COSTS OF SOLICITATION

The cost of the proxy solicitation is being borne by the Company. In addition to the use of the mail, proxies may be solicited personally or by telephone, by officers, regular employees or directors of the Company, who will not be compensated for any such services.

Brokerage firms, fiduciaries and other custodians who forward soliciting material to the beneficial owners of shares of common stock held of record by them will be reimbursed for their reasonable expenses incurred in forwarding such material.

FORM 10-K ANNUAL REPORT

The Company will provide to any shareholder solicited hereby, without charge, a copy of its Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission, upon written request. Requests should be directed to William R. Talley, Jr., Executive Vice President, Chief Financial Officer and Chief Operating Officer, Frederick County Bancorp, Inc., P.O. Box 1100, Frederick, Maryland 21702-0100.

SHAREHOLDER PROPOSALS

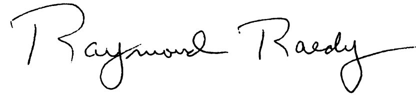
All shareholder business proposals intended to be presented at the 2014 Annual Meeting of Shareholders must be received by the Company at the Company's principal office in writing not later than November 1, 2013 for inclusion in the Company's proxy statement and form of proxy relating to that meeting. Any such proposals shall be subject to the requirements of the proxy rules adopted under the Securities Exchange Act of 1934. The Company must receive written notice of any shareholder proposal or nomination to be acted upon at the next annual meeting, for which inclusion in the Company's proxy materials is not sought, not less than 30 days or more than 60 days prior to the 2014 Annual Meeting of Shareholders, which is currently expected to be held on or about April 22, 2014.

OTHER BUSINESS

The Board of Directors 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 best judgment.

By Order of the Board of Directors

FREDERICK COUNTY BANCORP, INC.



Raymond Raedy
Chairman of the Board & Secretary

Frederick, Maryland
March 1, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2012

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File Number: 000-50407

FREDERICK COUNTY BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland	**20-0049496**
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9 North Market Street, Frederick, Maryland 21701
(Address of principal executive offices)(Zip Code)

(Registrant's telephone number, including area code): **301.620.1400**

Securities registered under Section 12(b) of the Exchange Act: **None.**

Securities registered under Section 12(g) of the Act: **Common Stock, par value $0.01 per share**

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

Indicate by check mark if 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, 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 registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

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

The aggregate market value of the outstanding Common Stock held by nonaffiliates as of June 30, 2012 was approximately $11.8 million. As of February 1, 2013, the number of outstanding shares of the Common Stock, $0.01 par value, of Frederick County Bancorp, Inc. was 1,508,574.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Shareholders, to be held on April 23, 2013, are incorporated by reference in Part III hereof.

Form 10-K Cross Reference of Material Incorporated by Reference

The following shows the location in this Annual Report on Form 10-K or the Company's Proxy Statement for the Annual Meeting of Shareholders, to be held on April 23, 2013, of the information required to be disclosed by the United States Securities and Exchange Commission Form 10-K. References to pages only are to pages in this report.

PART I	**Item 1.**	**Business.** See "Business" at Page 98.
	Item 1A.	**Risk Factors.** No disclosure required as the Company is a smaller reporting company.
	Item 1B.	**Unresolved Staff Comments.** None.
	Item 2.	**Properties.** See "Properties" at Page 101.
	Item 3.	**Legal Proceedings.** See "Legal Proceedings" at Page 102.
	Item 4.	**Mine Safety Disclosures.** Not applicable.
PART II	**Item 5.**	**Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.** See "Market for Common Stock and Dividends" at Page 110.
	Item 6.	**Selected Financial Data.** See "Five-Year Summary of Financial Information" at Page 32.
	Item 7.	**Management's Discussion and Analysis of Financial Condition and Results of Operations.** See "Management's Discussion and Analysis of Financial Condition and Results of Operations" at Page 33.
	Item 7A.	**Quantitative and Qualitative Disclosures About Market Risk.** See "Market Risk, Liquidity and Interest Rate Sensitivity" at page 38.
	Item 8.	**Financial Statements and Supplementary Data.** See Consolidated Financial Statements and Notes thereto at Page 56.
	Item 9.	**Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.** None.
	Item 9A	**Controls and Procedures.** See "Management's Report on Internal Control over Financial Reporting" at page 54 and "Disclosure Controls and Procedures" at Page 55.
	Item 9B.	**Other Information.** None.
PART III	**Item 10.**	**Directors, Executive Officers, and Corporate Governance.** The information required by this Item is incorporated by reference to, the material appearing under the captions "Election of Directors" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement. The Company has adopted a code of ethics that applies to its Chief Executive Officer and Chief Financial Officer. A copy of the code of ethics can be found on the Company's web site at www.fcbmd.com. After accessing the web site, the code of ethics is available upon selecting "About FCB." There have been no material changes in the procedures by which shareholders may recommend nominees to the Company's Board of Directors since the proxy statement for the 2012 annual meeting of shareholders.

Item 11. **Executive Compensation.** The information required by this Item is incorporated by reference to the material appearing under the captions "Executive Compensation" and "Election of Directors—Director's Compensation" in the Proxy Statement.

Item 12. **Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.** See "Securities Authorized for Issuance Under Equity Compensation Plans" under the heading "Market for Common Stock and Dividends" at Page 110. The other information required by this Item is incorporated by reference to the material appearing under the captions "Voting Securities and Principal Holders" in the Proxy Statement.

Item 13. **Certain Relationships and Related Transactions, and Director Independence.** The information required by this Item is incorporated by reference to the material appearing under the caption "Election of Directors" and "Transactions with Related Parties" in the Proxy Statement. See also Item 10 to this Annual Report on Form 10-K.

Item 14. **Principal Accountant Fees and Services.** The information required by this Item is incorporated by reference to the material appearing under the caption "Ratification of the Appointment of Independent Registered Public Accounting Firm" in the Proxy Statement.

PART IV **Item 15.** **Exhibits, Financial Statement Schedules.** See "Exhibits and Financial Statement Schedules" at Page 115.

Forward Looking Statements

This report contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements relating to the Company's beliefs, expectations, anticipations and plans regarding, among other things, general economic trends, interest rates, product expansions and other matters. In some cases, forward looking statements can be identified by use of words such as "may," "will," "anticipates," "believes," "expects," "plans," "estimates," "potential," "continue," "could," "should," and similar words or phrases. These statements are based upon current and anticipated economic conditions, nationally and in the Company's market, interest rates and interest rate policy, competitive factors, and other conditions which by their nature, are not susceptible to accurate forecast, and are subject to significant uncertainties, such as federal monetary policy, inflation, employment, profitability and consumer confidence levels, both nationally and in the Company's market area, the health of the real estate and construction markets in the Company's market area, the Company's ability to develop and market new products and to enter new markets, competitive challenges in the Company's market, legislative changes and other factors, and as such, there can be no assurance that future events will develop in accordance with the forward looking statements contained herein.

FIVE-YEAR SUMMARY OF FINANCIAL INFORMATION

The following table sets forth certain selected financial data concerning the Company, and is qualified in its entirety by the detailed information and consolidated financial statements, including notes thereto, included elsewhere herein.

(dollars in thousands, except per share amounts)	Years Ended December 31, 2012	2011	2010	2009	2008
Summary of Operating Results:					
Total interest income	$ 13,013	$ 13,612	$ 14,496	$ 14,001	$ 15,480
Total interest expense	2,044	3,010	3,948	5,274	7,116
Net interest income	10,969	10,602	10,548	8,727	8,364
Provision for loan losses	1,275	1,740	1,660	1,175	935
Net interest income after provision for loan losses	9,694	8,862	8,888	7,552	7,429
Securities gains	1,050	386	283	235	26
(Loss) gain on sale of foreclosed properties	(82)	(18)	—	(37)	15
Bank owned life insurance	187	101	—	—	—
Other noninterest income (excluding gains and losses)	673	526	566	577	535
Noninterest expenses	9,603	8,517	7,956	6,791	6,526
Income before provision for income taxes	1,919	1,340	1,781	1,536	1,479
Provision for income taxes	524	316	626	488	441
Net income	1,395	1,024	1,155	1,048	1,038
Other comprehensive (loss) income, net of taxes	(335)	834	(77)	78	(9)
Comprehensive income	$ 1,060	$ 1,858	$ 1,078	$ 1,126	$ 1,029
Per Share Data:					
Basic earnings	$ 0.92	$ 0.69	$ 0.79	$ 0.72	$ 0.71
Diluted earnings	$ 0.92	$ 0.68	$ 0.78	$ 0.71	$ 0.69
Dividends declared	$ 0.20	$ 0.10	—	—	—
Book value at period-end	$ 17.40	$ 16.81	$ 15.79	$ 14.88	$ 14.11
Shares outstanding at period-end	1,508,574	1,514,314	1,469,364	1,461,802	1,460,802
Weighted average shares outstanding:					
Basic	1,513,941	1,487,307	1,469,100	1,461,079	1,460,670
Diluted	1,515,663	1,513,763	1,482,350	1,475,068	1,503,372
Other Data (At Year-End):					
Assets	$ 314,459	$ 292,012	$ 289,043	$ 258,559	$ 254,562
Investments	36,292	37,933	31,699	25,643	21,639
Loans	229,288	212,315	209,387	214,943	211,840
Deposits	268,113	246,487	248,624	219,312	216,883
Short-term borrowings	2,700	2,700	300	500	—
Long-term borrowings	10,000	10,000	10,000	10,000	10,000
Junior subordinated debentures	6,186	6,186	6,186	6,186	6,186
Shareholders' equity	26,256	25,457	23,195	21,750	20,612
Performance Ratios:					
Return on average assets	0.46%	0.35%	0.40%	0.40%	0.40%
Return on average shareholders' equity	5.29%	4.20%	5.04%	4.92%	5.12%
Allowance for loan losses to total loans	1.56%	1.51%	1.78%	1.45%	1.47%
Nonperforming assets to total loans and foreclosed properties	3.44%	4.18%	6.95%	0.67%	0.74%
Nonperforming assets to total assets	2.53%	3.09%	5.05%	0.56%	0.61%
Ratio of net charge-offs to average loans	0.42%	1.07%	0.49%	0.56%	0.21%
Average equity to average assets	8.61%	8.35%	8.02%	8.19%	7.83%
Tier 1 capital to risk-weighted assets	12.25%	12.69%	12.86%	11.81%	11.59%
Total capital to risk-weighted assets	13.50%	13.94%	14.11%	13.06%	12.84%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Frederick County Bancorp, Inc. (the "Bancorp"), the parent company for its wholly-owned subsidiary Frederick County Bank (the "Bank" and together with Bancorp, the "Company"), was organized in September 2003. The Bank was incorporated under the laws of the state of Maryland in August 2000 and commenced banking operations in October 2001. The Bank provides its customers with various banking services. The Bank offers various loan and deposit products to their customers. The Bank's customers include individuals and commercial enterprises within its principal market area consisting of Frederick County, Maryland. The Company operates out of five banking offices located in the City of Frederick and Walkersville, Maryland, the newest of which opened in January 2012. The Company also has a subsidiary trust, established to issue trust preferred securities, and two subsidiaries established to hold foreclosed properties. The two subsidiaries established to hold foreclosed properties are known as FCB Holdings, Inc (a direct subsidiary of Bancorp) and FCB Hagerstown, LLC (a direct subsidiary of the Bank). See Note 8 to the consolidated financial statements for the year ended December 31, 2012 (the "consolidated financial statements") for additional disclosures related to the subsidiary trust.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on information available as of the date of the financial statements and could differ from actual results.

Critical Accounting Policies

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. The estimates used in management's assessment of the adequacy of the allowance for loan losses require that management make assumptions about matters that are uncertain at the time of estimation. Differences in these assumptions and differences between the estimated and actual losses could have a material effect. For discussions related to the critical accounting policies of the Company, refer to the sections in this Management's Discussion and Analysis entitled "Income Taxes," "Allowance for Loan Losses" and "Investment Portfolio."

Overview

The following paragraphs provide an overview of the financial condition and results of operations of the Company. This discussion is intended to assist the readers in their analysis of the accompanying financial statements and notes thereto.

During 2012, the economy in Frederick County continued to maintain slow growth, like the economy for many regions in the United States and many countries throughout the world. The average unemployment rate for Frederick County continued to improve and remained at a relatively low level of 5.7% at November 30, 2012, a decline of 0.3%, from the 6.0% at December 31, 2011, and compared favorably to the Maryland rate of 6.8% and the national rate of 8.1%. Businesses, as well as consumers, felt the continuing effects of the downturn as the slow improvement in the economy has produced minimal results in activity and job production. The effects of this downturn have had an effect on the loans that the Company has made. However, management believes the local economy may be somewhat insulated from the full impact of the slow economy that may be felt in other parts of the country because of the local presence of a federal government medical research installation that has seen government funds continue to flow into Frederick County.

Net income was $1.40 million, $1.02 million and $1.16 million for the years ended December 31, 2012, 2011 and 2010, respectively. Basic and diluted earnings per share for 2012 were $0.92 and $0.92, respectively, for 2011 were $0.69 and $0.68, respectively and for 2010 were $0.79 and $0.78, respectively.

Return on average assets and return on average shareholders' equity are key measures of earnings performance. Return on average assets measures the ability of a bank to utilize its assets in generating income. The Company experienced returns on average assets of 0.46%, 0.35% and 0.40% for the years ended December 31, 2012, 2011 and 2010, respectively. The Company experienced a return on average shareholders' equity of 5.29%, 4.20% and 5.04% for the years ended December 31, 2012, 2011 and 2010, respectively.

During the year ended December 31, 2012, the Company experienced a relatively strong increase in total assets, as compared to recent years. Total assets stood at $314.46 million on December 31, 2012 as compared to $292.01 million at December 31, 2011 and $289.04 million at December 31, 2010. Gross loans increased $16.97 million, or 7.99%, in 2012 to end the period at $229.29 million compared to $212.32 million at December 31, 2011 and $209.39 million at December 31, 2010. During 2012, money market accounts increased approximately $11.60 million, and total deposits increased to $268.11 million at December 31, 2012, up from $246.49 million at December 31, 2011 and from $248.62 million at December 31, 2010. During 2012, the Company's investment portfolio decreased slightly to $34.79 million at December 31, 2012, as compared to $36.42 million at December 31, 2011, and $31.70 million at December 31, 2010.

Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

The "Comparative Statement Analysis" on the next page shows average balances of asset and liability categories, interest income and interest paid, and average yields and rates for the periods indicated.

Net Interest Income

Net interest income is generated from the Company's lending and investment activities, and is the most significant component of the Company's earnings. Net interest income is the difference between interest and rate-related fee income on earning assets (primarily loans and investment securities) and the interest paid on the funds (primarily deposits) supporting them. The Company primarily utilizes deposits to fund loans and investments, with a small amount of additional funding from junior

subordinated debentures and short-term and long-term borrowings. In future periods it may utilize a higher level of short-term and long-term borrowings, including borrowings from the Federal Home Loan Bank of Atlanta (the "FHLB"), federal funds lines with correspondent banks and repurchase agreements, to fund operations, depending on economic conditions, deposit availability and pricing, interest rates and other factors.

The taxable-equivalent interest income of $13.34 million earned in 2012 was $657 thousand lower than the $13.99 million earned in 2011, which was $796 thousand lower than the amount realized in 2010. The decrease in interest income in 2012 was primarily due to the lower average yield earned on the loan portfolio, which was offset somewhat by the increased volume in loan portfolio. The decrease in interest income in 2011 was primarily due to the decreased volume of loans, along with the lower average yield earned on the loan portfolio, which was offset somewhat by the increased volume in investment securities.

The interest expense decreased from $3.95 million in 2010 to $3.01 million in 2011 and by $966 thousand in 2012 to $2.04 million. The primary factor in the decreased interest expense in 2011 and 2012 was the reduction of the rates paid on the interest-bearing liabilities, as a result of repricing of liabilities to reflect the actions of the Federal Reserve, as well as the migration of deposits from certificates of deposit to other, lower cost, categories of deposits. Average interest bearing liabilities increased 2.00% in 2012 to $229.87 million and 1.43% in 2011 to $225.35 million from $222.18 million in 2010. The average rate paid on these liabilities decreased from 1.78% to 1.34% from 2010 to 2011 and continued to decline to 0.89% during 2012, as the percentage of liabilities represented by certificates of deposit declined, and the rates paid on these deposits along with the money market accounts declined as they renewed or were replaced at current market rates. The Company feels that the rates paid on its deposit liabilities should remain stable, subject to a slight increase as a result of competitive factors, local market conditions and customer preferences. In addition, as a result of the end, in December 2011, of the fixed rate period on the junior subordinated debt, the average rate paid decreased from 6.53% in 2010 to 6.34% in 2011 and to 2.13% for 2012.

During 2012, the loan yields and the rates paid on interest bearing liabilities decreased due to the impact of prior reductions of the federal funds target rate maintained by the Federal Reserve, in addition to their other actions, which would include the quantitative easing measures that have been implemented over the past year or so, and the decreased reliance on higher rate funding sources, including certificates of deposits, which dropped to 47.5% of average interest-bearing liabilities in 2012 from 51.7% in 2011 and 54.9% in 2010. The Federal Reserve eased the federal funds rate down to a range of 0% to 0.25% as of December 31, 2008 and has maintained this level through December 31, 2012.

The Company's net interest margin (net interest income as a percent of average interest-earning assets) was 3.89%, 3.93% and 3.89%, and the net interest spread (the spread between yields on average interest-earning assets and rates paid on average interest-bearing liabilities) was 3.71%, 3.67% and 3.53% for the years ended December 31, 2012, 2011 and 2010, respectively.

Comparative Statement Analysis

(dollars in thousands)	2012 Average daily balance	2012 Interest income/ expense	2012 Average yield/rate	2011 Average daily balance	2011 Interest income/ expense	2011 Average yield/rate	2010 Average daily balance	2010 Interest income/ expense	2010 Average yield/rate
	Years Ended December 31,								
Assets									
Interest-earning assets:									
Federal funds sold	$ 142	$ —	0.00%	$ 1,286	$ 1	0.08%	$ 1,175	$ 2	0.17%
Interest-bearing deposits in other banks	25,845	59	0.23%	28,337	66	0.23%	25,967	59	0.23%
Investment securities(1):									
Taxable	30,758	651	2.11%	27,499	744	2.71%	27,499	715	2.60%
Tax-exempt(2)	11,962	583	4.86%	13,083	739	5.65%	7,535	464	6.16%
Loans(3)	220,574	12,042	5.44%	209,420	12,442	5.94%	216,371	13,548	6.26%
Total interest-earning assets	289,281	13,335	4.60%	279,625	13,992	5.00%	278,547	14,788	5.31%
Noninterest-earning assets	17,118			12,561			7,125		
Total assets	$306,399			$292,186			$285,672		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities									
NOW accounts	$ 17,108	38	0.22%	$ 14,824	38	0.26%	$ 13,794	31	0.22%
Savings accounts	6,263	4	0.06%	5,092	5	0.10%	5,065	5	0.10%
Money market accounts	78,479	364	0.46%	70,840	465	0.66%	64,667	679	1.05%
Certificates of deposit $100,000 or more	43,978	501	1.14%	46,219	730	1.58%	49,826	996	2.00%
Certificates of deposit less than $100,000	65,151	607	0.93%	70,329	994	1.41%	72,210	1,368	1.89%
Short-term borrowings	2,700	76	2.81%	1,863	65	3.49%	430	19	4.42%
Long-term borrowings	10,000	322	3.21%	10,000	321	3.21%	10,000	446	4.46%
Junior subordinated debentures	6,186	132	2.13%	6,186	392	6.34%	6,186	404	6.53%
Total interest-bearing liabilities	229,865	2,044	0.89%	225,353	3,010	1.34%	222,178	3,948	1.78%
Noninterest-bearing deposits	48,993			41,566			39,691		
Noninterest-bearing liabilities	1,167			865			895		
Total liabilities	280,025			267,784			262,764		
Shareholders' equity	26,374			24,402			22,908		
Total liabilities and shareholders' equity	$306,399			$292,186			$285,672		
Net interest income		$11,291			$10,982			$10,840	
Net interest spread			3.71%			3.67%			3.53%
Net interest margin			3.89%			3.93%			3.89%

(1) Yields on securities available-for-sale have been calculated on the basis of historical cost and do not give effect to changes in the fair value of those securities, which is reflected as a component of shareholders' equity.

(2) Presented on a taxable-equivalent basis using the statutory federal income tax rate of 34%. Taxable-equivalent adjustments of $198 thousand in 2012, $251 thousand in 2011 and $158 thousand in 2010 are included in the calculation of the tax-exempt investment securities interest income.

(3) Presented on a taxable-equivalent basis using the statutory federal income tax rate of 34%. Taxable-equivalent adjustments of $124 thousand in 2012, $129 thousand in 2011 and $134 thousand in 2010 are included in the calculation of the loan interest income. Loans placed on nonaccrual status are included in average balances. Net loan fees included in interest income totaled $9 thousand in 2012, $34 thousand in 2011 and $90 thousand in 2010.

Rate/Volume Analysis

The following table indicates the changes in interest income and interest expense that are attributable to changes in average volume and average rates, in comparison with the same period in the

preceding year. The change in interest due to the combined rate-volume variance has been allocated entirely to the change in rate.

(dollars in thousands)	2012 compared to 2011 Increase (decrease) due to			2011 compared to 2010 Increase (decrease) due to		
	Volume	Rate	Net increase (decrease)	Volume	Rate	Net increase (decrease)
Interest Income						
Interest-earning assets:						
Federal funds sold	$ (1)	$ —	$ (1)	$ —	$ (1)	$ (1)
Interest-bearing deposits in other banks	(6)	(1)	(7)	5	2	7
Investment securities:						
Taxable	88	(181)	(93)	—	29	29
Tax-exempt	(63)	(93)	(156)	342	(67)	275
Loans	661	(1,061)	(400)	(435)	(671)	(1,106)
Total interest income	679	(1,336)	(657)	(88)	(708)	(796)
Interest Expense						
Interest-bearing liabilities:						
NOW accounts	6	(6)	—	2	5	7
Savings accounts	1	(2)	(1)	—	—	—
Money market accounts	50	(151)	(101)	65	(279)	(214)
Certificates of deposit $100,000 or more	(35)	(194)	(229)	(72)	(194)	(266)
Certificates of deposit less than $100,000	(73)	(314)	(387)	(36)	(338)	(374)
Short-term borrowings	29	(18)	11	63	(17)	46
Long-term borrowings	—	1	1	—	(125)	(125)
Junior subordinated debentures	—	(260)	(260)	—	(12)	(12)
Total interest expense	(22)	(944)	(966)	22	(960)	(938)
Net interest income	$701	$ (392)	$ 309	$(110)	$ 252	$ 142

Noninterest Income

Noninterest income was $1.83 million in 2012 and $995 thousand in 2011, attributable primarily to service fees on deposit accounts and ATM interchange fees. Included in the noninterest income are securities gains of $1.05 million in 2012 and $386 thousand in 2011. Also included in noninterest income for 2012 and 2011 are losses of $82 thousand and $18 thousand respectively on the sale of foreclosed property. Noninterest income also increased during 2012 as a result of $187 thousand of income on bank owned life insurance purchased in May 2011 and September 2012, compared to $101 thousand in 2011.

Noninterest Expenses

Noninterest expenses were $9.60 million in 2012 and $8.52 million in 2011. See Note 12 to the consolidated financial statements for a schedule showing a detailed breakdown of the Company's noninterest expenses. The primary increase in noninterest expense in 2012 compared to 2011 relates to an increase in the provision for foreclosed properties of $592 thousand, an increase of advertising expenses of $197 thousand and additional depreciation of $96 thousand related to the new East Frederick branch that opened in January 2012.

Income Taxes

The Company incurred $524 thousand, $316 thousand and $626 thousand of income tax expenses in 2012, 2011 and 2010. The effective tax rates are 27.31% for 2012, 23.58% for 2011 and 35.15% for 2010. The increase to the income tax rate in 2012 is primarily due to the higher level of pre-tax income, whereas the decrease in the income tax rate in 2011 is primarily due to lower net income and a higher proportion of tax-exempt income to pre-tax income, which includes income from municipal securities and bank owned life insurance, to taxable income.

Market Risk, Liquidity and Interest Rate Sensitivity

Asset/liability management involves the funding and investment strategies necessary to maintain an appropriate balance between interest sensitive assets and liabilities. It also involves providing adequate liquidity while sustaining stable growth in net interest income. Regular review and analysis of deposit and loan trends, cash flows in various categories of loans, and monitoring of interest spread relationships are vital to this process.

The conduct of our banking business requires that we maintain adequate liquidity to meet changes in the composition and volume of assets and liabilities due to seasonal, cyclical or other reasons. Liquidity describes the ability of the Company to meet financial obligations 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 for meeting current and future planned expenditures. This liquidity is typically provided by the funds received through customer deposits, investment maturities, loan repayments, borrowings, and income. Management considers the current liquidity position to be adequate to meet the needs of the Company and its customers.

The Company seeks to limit the risks associated with interest rate fluctuations by managing the balance between interest sensitive assets and liabilities. Managing to mitigate interest rate risk is, however, not an exact science. Not only does the interval until repricing of interest rates on assets and liabilities change from day to day as the assets and liabilities change, but for some assets and liabilities, contractual maturity and the actual maturity experienced are not the same. Similarly, NOW and money market accounts, by contract, may be withdrawn in their entirety upon demand and savings deposits may be withdrawn on seven days notice. While these contracts are extremely short, it is the Company's belief that these accounts turn over at the rate of five percent (5%) per year. The Company therefore treats them as having maturities ratably over all periods. If all of the Company's NOW, money market, and savings accounts were treated as repricing in one year or less, the Company would have a cumulative negative gap at one year or less of $(81.76) million.

Interest rate sensitivity is an important factor in the management of the composition and maturity configurations of the Company's earning assets and funding sources. An Asset/Liability Committee manages the interest rate sensitivity position in order to maintain an appropriate balance between the maturity and repricing characteristics of assets and liabilities that is consistent with the Company's liquidity analysis, growth, and capital adequacy goals. It is the objective of the Asset/Liability Committee to maximize net interest margins during periods of both volatile and stable interest rates, to attain earnings growth, and to maintain sufficient liquidity to satisfy depositors' requirements and meet the funding needs of the Company's loan production.

The following table, ''Interest Rate Sensitivity Gap Analysis,'' summarizes, as of December 31, 2012, the anticipated maturities or repricing of the Company's interest-earning assets and interest-bearing liabilities, the Company's interest rate sensitivity gap (interest-earning assets less interest-bearing liabilities), the Company's cumulative interest rate sensitivity gap, and the Company's cumulative interest sensitivity gap ratio (cumulative interest rate sensitivity gap divided by total assets). A negative gap for any time period means that more interest-bearing liabilities will reprice or mature during that time period than interest-earning assets. During periods of rising interest rates, a negative

gap position would generally decrease earnings, and during periods of declining interest rates, a negative gap position would generally increase earnings. The converse would be true for a positive gap position. Therefore, a positive gap for any time period means that more interest-earning assets will reprice or mature during that time period than interest-bearing liabilities. During periods of rising interest rates, a positive gap position would generally increase earnings, and during periods of declining interest rates, a positive gap position would generally decrease earnings.

It is important to note that the following table represents the static gap position for interest sensitive assets and liabilities at December 31, 2012. The table does not give effect to prepayments or extensions of loans as a result of changes in general market interest rates. Moreover, it does not account for timing differences that occur during periods of repricing. For example, changes to deposit rates traditionally tend to lag in a rising rate environment and lead in a falling rate environment, although this will not always be the case. Nor does it account for the effects of competition on pricing of deposits and loans. For example, under current market conditions, market rates paid on deposits may not be able to adjust by the full amount of downward adjustments in the federal funds target rate, while rates on loans will tend to adjust by the full amount, subject to certain limitations.

Interest Rate Sensitivity Gap Analysis
December 31, 2012

	Expected Repricing or Maturity Date				
(dollars in thousands)	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
Assets					
Interest-bearing deposits in other banks	$30,349	$ —	$ —	$ —	$ 30,349
Investment securities(1)	—	6,284	8,081	20,122	34,487
Loans	66,609	48,185	80,784	33,710	229,288
Total interest-earning assets	96,958	54,469	88,865	53,832	294,124
Liabilities					
Savings and NOW Accounts	1,187	2,373	2,373	17,800	23,733
Money Market Accounts	4,184	8,368	8,368	62,755	83,675
Certificates of Deposit	62,419	33,937	13,093	—	109,449
Short-term borrowings	2,700	—	—	—	2,700
Long-term borrowings	—	10,000	—	—	10,000
Junior subordinated debentures	6,186	—	—	—	6,186
Total interest-bearing liabilities	76,676	54,678	23,834	80,555	235,743
Interest rate sensitivity gap	$20,282	$ (209)	$65,031	$(26,723)	$ 58,381
Cumulative interest rate sensitivity gap	$20,282	$20,073	$85,104	$ 58,381	
Cumulative gap ratio as a percentage of total assets	6.27%	6.21%	26.31%	18.05%	

(1) Excludes equity securities.

In addition to the Interest Rate Sensitivity Gap Analysis, the Company also uses an earnings simulation model on a quarterly basis to closely monitor interest sensitivity and to expose its balance sheet and income statement to different scenarios. The model is based on period end Company data and adjusted by assumptions as to growth patterns, noninterest income and noninterest expense and interest rate sensitivity, based on historical data, for both assets and liabilities projected for a one-year period. The model is then subjected to a "shock test" assuming a sudden prime interest rate increase

of 100, 200, 300 and 400 basis points or a decrease for the same amounts, but not below zero. The results show that with a rise in the prime interest rate the Company's net interest income would increase by 0.82% for 100 basis points, but decrease by 0.56%, 2.08% and 3.00% for 200, 300 and 400 basis points, respectively. A decrease in the prime interest rate of 100 basis points or more was not considered to be feasible since this would imply that the federal funds interest rate would fall below zero.

Certain shortcomings are inherent in this method of analysis. For example, although certain assets and liabilities may have similar maturities or repricing periods, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the loan. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed. Finally, the ability of many borrowers to service their debt may decrease in the event of a significant interest rate increase.

Investment Portfolio

The investment portfolio is used as a source of interest income, credit risk diversification and liquidity, as well as to manage rate sensitivity and provide collateral for secured public funds, repurchase agreements and other short-term borrowings. Management has historically emphasized investments with a weighted-average life of seven years or less to provide greater flexibility in managing the balance sheet in changing interest rate environments. At December 31, 2012, the mortgage-backed debt securities had a weighted-average life of 5.93 years, and the municipal securities had a weighted-average life of 7.80 years, giving the total investment portfolio a weighted-average life of 6.67 years. The average tax-equivalent yield earned on the investment portfolio for 2012, 2011 and 2010 was 2.89%, 3.65% and 3.37%, respectively. The mortgage-backed securities portfolio consists entirely of U.S. government agency securities and does not include any private label, subprime or Alt-A type investments, which would carry a higher degree of risk.

The Company had $1.53 million in bonds in an unrealized loss position amounting to $9 thousand at December 31, 2012 that were temporarily impaired due to the current interest rate environment and not increased credit risk. At December 31, 2012, the Company had no investment securities that were other-than-temporarily impaired. In estimating other-than-temporary impairment losses, the Company considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, and (iii) the intent and the ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in cost. The Company had no investments that were obligations of the issuer, or payable from or secured by a source of revenue or taxing authority of the issuer, whose aggregate book value exceeded 10% of shareholders' equity at December 31, 2012.

The following tables set forth certain information regarding the Company's investment portfolio at the dates indicated.

Available-for-Sale Portfolio

	December 31,								
	2012			2011			2010		
(dollars in thousands)	Amortized Cost	Estimated Fair Value	Weighted Average Yield	Amortized Cost	Estimated Fair Value	Weighted Average Yield	Amortized Cost	Estimated Fair Value	Weighted Average Yield
States and political subdivisions:									
Due after five years through ten years	$ 3,234	$ 3,316	4.59%	$ 6,038	$ 6,437	4.74%	$ 2,094	$ 2,085	5.36%
Due after ten years	6,468	6,605	4.09%	6,814	7,230	5.49%	7,005	6,932	5.74%
Small business administration:									
Due after ten years	1,763	1,847	2.94%	889	924	3.69%	—	—	—%
Mortgage-backed debt securities	22,250	22,720	2.14%	21,055	21,532	2.65%	20,830	20,861	2.71%
Equity securities	300	300	—%	300	300	—%	300	300	—%
	$34,015	$34,788	2.77%	$35,096	$36,423	3.56%	$30,229	$30,178	3.57%

Loan Portfolio

The Company makes real estate construction and land development, commercial and residential real estate mortgage, commercial and industrial, and consumer loans. The commercial real estate mortgage loans are generally secured by the property and have a maximum loan to value ratio at origination of 75% and generally a term of five to ten years. The residential real estate mortgage loans are generally secured by the property and have a maximum loan to value ratio at origination of 75% and generally a term of one to five years, although they may have terms up to thirty years. The Company does not make it a practice of establishing an interest reserve account as part of the loan funding amount. The commercial and industrial loans consist of secured and unsecured loans. The unsecured commercial loans are made based on the financial strength of the borrower and usually require personal guarantees from the principals of the business. The collateral for the secured commercial loans may be equipment, accounts receivable, marketable securities or deposits in the Bank. These loans typically have a maximum loan to value ratio at origination of 75% and a term of one to five years. The consumer loan category consists of secured and unsecured loans. The unsecured consumer loans are made based on the financial strength of the individual borrower. The collateral for secured consumer loans may be marketable securities, automobiles, recreational vehicles or deposits in the Bank. The usual term for these loans is three to five years.

The following table sets forth the distribution of the Company's loan portfolio at the dates indicated by category of loan and the percentage of loans in each category to total loans.

(dollars in thousands)	December 31, 2012		2011		2010		2009		2008	
Real estate—construction and land development	$ 19,448	8%	$ 18,996	9%	$ 15,742	8%	$ 15,726	7%	$ 17,049	7%
Real estate—mortgage:										
Commercial properties	137,217	60%	131,329	62%	128,998	62%	113,373	52%	112,384	52%
Residential properties	40,288	18%	35,863	17%	37,143	17%	48,717	23%	45,842	23%
Total real estate—mortgage	177,505	78%	167,192	79%	166,141	79%	162,090	75%	158,226	75%
Commercial and industrial	30,470	13%	24,273	11%	25,778	12%	35,397	17%	34,827	17%
Consumer	1,865	1%	1,854	1%	1,726	1%	1,730	1%	1,738	1%
Total loans	$229,288	100%	$212,315	100%	$209,387	100%	$214,943	100%	211,840	100%
Less allowance for loan losses	(3,571)		(3,216)		(3,718)		(3,127)		(3,120)	
Net loans	$225,717		$209,099		$205,669		$211,816		$208,720	

As of December 31, 2012, the real estate loan portfolio constituted 86% of the total loan portfolio. While this exceeds the 10% threshold for determining a concentration of credit risk within an industry, we do not consider this to be a concentration with adverse risk characteristics given the diversity of borrowers within the real estate portfolio and other sources of repayment. An industry for this purpose is defined as a group of counterparties that are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The loan portfolio does not include concentrations of credit risk in loan products that permit the deferral of principal payments or payments that are smaller than normal interest accruals (negative amortization); loans with high loan-to-value ratios; and loans, such as option adjustable-rate mortgages, that may expose the borrower to future increases in repayments that are in excess of increases that would result solely from increases in market interest rates. The Company has $11.86 million and $11.16 million in outstanding balances of interest-only home equity lines of credit at December 31, 2012 and 2011, respectively.

During 2012, the balance of loans in the construction and land development and commercial real estate categories has increased moderately. During 2010, the Company intentionally limited the origination of real estate construction and land development loans, raising credit standards, as management believed the market for projects being financed was becoming overheated; however, during 2011 and into 2012 management felt that the risks had somewhat abated and resumed this type of lending.

Under guidance by the federal banking regulators, banks which have concentrations in construction, land development or commercial real estate loans (other than loans for majority owner occupied properties) would be expected to maintain higher levels of risk management and, potentially, higher levels of capital. It is possible that we may be required to maintain higher levels of capital than we would otherwise be expected to maintain as a result of our levels of construction, development and commercial real estate loans, which may require us to obtain additional capital. The Company monitors the level of construction and land development, and non-owner occupied commercial real estate loans in relation to its total risk-weighted capital on at least a quarterly basis. The banking regulators have established guidance limits of 100% and 300% of total risk-weighted capital for construction and land development, and non-owner occupied commercial real estate loans, respectively. These ratios as of December 31, 2012 were 55.12% for construction and land development loans and 172.37% for non-owner occupied commercial real estate loans. While our level of loans in these areas is below the percentages established in the regulatory guidance, there can be no assurance that we will not be required to maintain higher levels of capital as a result of our concentration of loans.

Maturity and Interest Rate Sensitivity of Loans

The following table presents the maturities or repricing periods of loans outstanding at December 31, 2012.

	Maturing in						
	One year or less		After 1 through 5 years		After 5 years		
(dollars in thousands)	Fixed Interest Rates	Variable Interest Rates	Fixed Interest Rates	Variable Interest Rates	Fixed Interest Rates	Variable Interest Rates	Total
Real estate—construction and land development	$ 3,609	$ 5,108	$ 5,450	$ 3,401	$ 1,422	$ 458	$ 19,448
Real estate—mortgage:							
Commercial properties	10,606	2,857	89,794	8,618	19,505	5,837	137,217
Residential properties	5,003	425	15,757	457	4,525	14,121	40,288
Commercial and industrial	1,282	1,677	13,341	6,187	178	7,805	30,470
Consumer	145	—	510	21	96	1,093	1,865
Total	$20,645	$10,067	$124,852	$18,684	$25,726	$29,314	$229,288

Allowance for Loan Losses

The Company makes provisions for loan losses in amounts deemed necessary to maintain the allowance for loan losses at an appropriate level. The provision for loan losses is determined based upon management's estimate of the amount required to maintain an adequate allowance for loan losses reflective of the risks in the Company's loan portfolio. The Company's provision for loan losses in 2012, 2011 and 2010 were $1.28 million, $1.74 million and $1.66 million, respectively. The decrease in the provision for loan losses in 2012 compared to 2011 and 2010 is primarily due to a decrease in the amount of gross charge-offs and no substantial change in the level of substandard loans, which have not required as high a level of reserves as the prior year. In 2012, the Company incurred $957 thousand of gross charge-offs, as compared to $2.27 million in 2011 and $1.28 million in 2010. At December 31, 2012, the allowance for loan losses was $3.57 million or 1.56% of total loans compared to $3.22 million or 1.51% of total loans at December 31, 2011.

The Company prepares a quarterly analysis of the allowance for loan losses, with the objective of quantifying portfolio risk into a dollar amount of inherent losses. The determination of the allowance for loan losses is based on eight qualitative factors and one quantitative factor for each category and type of loan along with any specific allowance for adversely classified loans within each category. Each factor is assigned a percentage weight and that total weight is applied to each loan category. Factors are different for each category. Qualitative factors include: levels and trends in delinquencies and nonaccrual loans; trends in volumes and terms of loans; effects of any changes in lending policies, the experience, ability and depth of management; national and local economic trends and conditions; concentrations of credit; quality of the Company's loan review system; and regulatory requirements. The total allowance required thus changes as the percentage weight assigned to each factor is increased or decreased due to the particular circumstances, as the various types and categories of loans change as a percentage of total loans and as specific allowances are required due to increases in adversely classified loans. See Note 1 to the consolidated financial statements for additional information regarding the determination of the provision and allowance for loan losses.

The Company follows the guidance of the Financial Accounting Standards Board ("FASB") *Accounting Standards Codification* ("ASC") Topic 450 *Contingencies* and ASC Topic 310 *Receivables*. This guidance requires that losses be accrued when they are probable of occurring and estimable and requires that impaired loans, within its scope, be measured based on the present value of expected

future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. This guidance excludes smaller balance and homogeneous loans, which are collectively evaluated for impairment, from impairment reporting. Therefore, the Company has designated consumer and residential mortgage loans to be excluded for this purpose. From the remaining loan portfolio, loans rated as doubtful or worse, classified as nonaccrual, and troubled debt restructurings may be evaluated for impairment. Slow payment on a loan is considered, by the Company, to only be a minimum delay.

Loans are evaluated for nonaccrual status when principal or interest is delinquent for 90 days or more and are placed on nonaccrual status when a loan is specifically determined to be impaired. Any unpaid interest previously accrued on those loans is reversed from income. Any interest payments subsequently received are recognized as income unless, in management's opinion, a potential for loss remains. Interest payments received on loans, where management believes a potential for loss remains, are applied as a reduction of the loan principal balance.

Management believes that the allowance for loan losses is adequate. There can be no assurance, however, that adjustments to the provision for loan losses will not be required in the future. Changes in the economic assumptions underlying management's estimates and judgments; adverse developments in the economy, on a national basis or in the Company's market area; or changes in the circumstances of particular borrowers are criteria that could change and make adjustments to the provision for loan losses necessary.

The following table reflects activity in the allowance for loan losses for the periods indicated.

	December 31,				
(dollars in thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Average total loans outstanding during year	$220,574	$209,420	$216,371	$210,224	$211,806
Balance at beginning of year	$ 3,216	$ 3,718	$ 3,127	$ 3,120	$ 2,640
Recoveries:					
Construction and land development	—	—	2	—	—
Commercial real estate	—	6	4	—	—
Residential real estate	1	—	—	—	—
Commercial and industrial	35	21	4	4	10
Consumer	1	1	1	—	—
Total recoveries	37	28	213	4	10
Charge-offs:					
Construction and land development	(62)	(2)	(173)	(90)	—
Commercial real estate	(120)	(1,969)	(500)	(596)	(76)
Residential real estate	(47)	—	(92)	—	(6)
Commercial and industrial	(723)	(299)	(515)	(474)	(378)
Consumer	(5)	—	(2)	(12)	(5)
Total charge-offs	(957)	(2,270)	(1,282)	(1,172)	(465)
Net charge-offs	(921)	(2,242)	(1,069)	(1,168)	(455)
Provision charged to operating expenses	1,275	1,740	1,660	1,175	935
Balance at end of year	$ 3,571	$ 3,216	$ 3,718	$ 3,127	$ 3,120
Ratios of net charge-offs to average loans	0.42%	1.07%	0.49%	0.56%	0.21%

Problem Assets

The following table reflects the Company's problem assets at the dates indicated. Except as reflected in the tables, there were no other interest-bearing assets at December 31, 2012 classifiable as nonaccrual, 90 days past due or problem assets.

(dollars in thousands)	December 31, 2012	2011	2010	2009	2008
Nonperforming assets:					
Nonaccrual loans:					
Construction and land development	$ 689	$1,049	$ 111	$ 103	$ —
Commercial real estate	2,788	795	1,913	840	1,103
Residential real estate	262	148	—	—	—
Commercial and industrial	47	32	178	—	94
Consumer	39	—	—	—	—
Total nonaccrual loans	3,825	2,024	2,202	943	1,197
Accruing troubled debt restructurings:					
Commercial real estate	257	2,089	7,306	—	—
Residential real estate	1,057	1,120	546	—	—
Commercial and industrial	769	288	1,620	—	—
Consumer	13	17	—	—	—
Total accruing troubled debt restructurings	2,096	3,514	9,472	—	—
Total nonperforming loans	5,921	5,538	11,674	943	1,197
Foreclosed properties:					
Commercial real estate	2,048	3,095	231	—	—
Residential real estate	—	396	495	495	363
Total foreclosed properties	2,048	3,491	726	495	363
Total nonperforming assets	$7,969	$9,029	$14,602	$ 1,438	$ 1,560
Nonperforming assets to total loans and foreclosed properties at period end	3.44%	4.18%	6.95%	0.67%	0.74%
Nonperforming assets to total assets at period end	2.53%	3.09%	5.05%	0.56%	0.61%
Allowance for loan losses to nonperforming loans at period end	60.31%	58.07%	31.85%	331.60%	260.65%

Information concerning the Company's recorded investment in impaired loans is as follows:

(dollars in thousands)	December 31, 2012	December 31, 2011
Impaired loans with no allowance:		
Construction and land development	$ 1,452	$ 2,510
Commercial real estate	7,039	9,217
Residential real estate	1,619	1,950
Commercial and industrial	1,259	5,163
Consumer	52	17
Total impaired loans with no allowance	$11,421	$18,857
Impaired loans with allowance:		
Construction and land development	$ 788	$ 1,771
Commercial real estate	1,116	689
Residential real estate	186	191
Commercial and industrial	—	32
Total impaired loans with allowance	$ 2,090	$ 2,683
Specific allocation of allowance	$ 235	$ 228

(dollars in thousands)	December 31, 2012	December 31, 2011
Impaired performing loans:		
Construction and land development	$ 1,551	$ 3,232
Commercial real estate	5,110	7,022
Residential real estate	486	873
Commercial and industrial	443	4,875
Total impaired performing loans	$ 7,590	$16,002
Impaired nonperforming loans:		
Nonaccrual loans:		
Construction and land development	$ 657	$ 988
Commercial real estate	909	426
Residential real estate	262	148
Commercial and industrial	—	32
Consumer	39	—
Accruing troubled debt restructurings:		
Commercial real estate	257	2,089
Residential real estate	1,057	1,120
Commercial and industrial	769	288
Consumer	13	17
Nonaccrual troubled debt restructurings:		
Construction and land development	32	61
Commercial real estate	1,879	369
Commercial and industrial	47	—
Total impaired nonperforming loans	$ 5,921	$ 5,538
Total impaired loans	$13,511	$21,540

At December 31, 2012, there were $11.42 million of impaired loans with no specific reserves that consisted of four (4) construction and land development loans in the aggregate amount of

$1.45 million, fourteen (14) commercial real estate loans in the aggregate amount of $7.04 million, nine (9) residential mortgage loans aggregating $1.62 million, three (3) commercial and industrial loans totaling $1.26 million and two (2) consumer loans aggregating $52 thousand. By comparison at December 31, 2011, there were $18.86 million of impaired loans with no specific reserves that consisted of four (4) construction and land development loans in the aggregate amount to $2.51 million, fifteen (15) commercial real estate loans in the aggregate amount of $9.22 million, eight (8) residential mortgage loans aggregating $1.95 million, ten (10) commercial and industrial loans totaling $5.16 million and one (1) consumer loan aggregating $17 thousand. In addition at December 31, 2012, there were $2.09 million of impaired loans, which required specific reserves totaling $235 thousand, that consisted of one (1) construction and land development loan for $788 thousand, five (5) commercial real estate loans in the aggregate amount of $1.11 million and one (1) residential mortgage loan for $186 thousand compared to $2.68 million of impaired loans at December 31, 2011, which required specific reserves totaling $228 thousand, that consisted of four (4) construction and land development loans aggregating $1.77 million, four (4) commercial real estate loans in the aggregate amount of $689 thousand, one (1) residential mortgage loan for $191 thousand and one (1) commercial and industrial loan for $32 thousand.

There are no loans that had a specific allowance as of December 31, 2011 that are still in the Company's loan portfolio as of December 31, 2012 where the specific allowance has been reduced or eliminated.

Loans are placed into a nonaccruing status and classified as nonperforming when the principal or interest has been in default for a period of 90 days or more unless the obligation is well secured and in the process of collection. A debt is "well secured" if it is secured by (i) pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt, (including accrued interest), in full, or (ii) the guarantee of a financially responsible party. A debt is "in the process of collection" if collection on the debt is proceeding in due course either through legal action, including judgment enforcement procedure, or, in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status.

Loans classified as substandard or worse are considered for impairment testing. A substandard loan shows signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. The borrower on such loans typically exhibit one or more of the following characteristics: financial ratios and profitability margins are well below industry average; a negative cash flow position exists; debt service capacity is insufficient to service the debt and an improvement in the cash flow position is unlikely within the next twelve months; secondary and tertiary means of debt repayment are weak. Loans classified as substandard are characterized by the probability that the Bank will not collect amounts due according to the contractual terms or sustain some loss if the deficiencies are not corrected.

Loss potential, while existing with respect to the aggregate amount of substandard (or worse) loans, does not have to exist in any individual assets classified as substandard. Such credits are also evaluated for nonaccrual status.

Impaired loans include loans that have been classified as substandard or worse. However, certain of such loans have been paying as agreed and have remained current, with some financial issues related to cash flow that has caused some concern as to the ability of the borrower to perform in accordance with the current loan terms, but it has not been extreme enough to require the loan be put into a nonaccruing status. At December 31, 2012, there were $9.69 million of such loans, as compared to $19.52 million at December 31, 2011.

The Company does not have a formal modification program such as the Making Home Affordable Program, but instead uses a system whereby loans are modified on a case-by-case basis, based upon an analysis of the individual borrower's situation and the causes of the weakness in the individual loan. To date, loan modifications have primarily involved commercial real estate mortgages and commercial and industrial loans and have included reducing the interest rate on the loan to a level that is in line with current market rates for similar type loans, converting to an interest only period, usually six to twelve months, or re-amortizing the loan. During 2012, the Company has not made any concessions on any residential mortgage loans.

Troubled debt restructured loans, which are included in the total of impaired loans, amounted to $4.01 million as of December 31, 2012; consisting of loans converted to interest only periods for six to twelve months in the amount of $1.74 million, reduced interest rates on loans in the amount of $894 thousand, and loans that have been re-amortized in the amount of $1.37 million. These loans have specific reserves of $66 thousand based on the collateral value.

As noted above the Company does not have a formal modification program and it does not have any loans as of December 31, 2012 that had been modified and then subsequently re-defaulted in 2012.

Loans classified as nonperforming are nonaccrual loans and loans 90 days or more past due. The Company does not have any loans 90 days or more past due that are still in an accruing status. If a loan has been modified and it is current as to principal and interest for a period of at least six months then it is classified as a performing loan, otherwise it is considered to be a nonperforming loan.

The Company's charge-off policy states after all collection efforts have been exhausted and the loan is deemed to be a loss, it will be charged to the Company's established allowance for loan losses. Consumer loans subject to the Uniform Retail Credit Classification are charged-off as follows: (a) closed end loans are charged-off no later than 120 days after becoming delinquent, (b) consumer loans to borrowers who subsequently declare bankruptcy, where the Company is an unsecured creditor, are charged-off within 60 days of receipt of the notification from the bankruptcy court, (c) fraudulent loans are charged-off within 90 days of discovery and (d) death of a borrower will cause a charge-off to be incurred at such time an actual loss is determined. All other types of loans are generally evaluated for loss potential at the 90th day past due threshold, and any loss is recognized no later than the 120th day past due threshold; each loss is evaluated on its specific facts regarding the appropriate timing to recognize the loss.

The Company has recorded $1.06 million in partial charge-offs related to one (1) construction and land development, five (5) commercial real estate and two (2) commercial and industrial loan relationships that are still in the loan portfolio as of December 31, 2012.

The allocation of the allowance, presented in the following table, is based primarily on the factors discussed above in evaluating the adequacy of the allowance as a whole. Since all of those factors are subject to change, the allocation is not necessarily indicative of the category of future loan losses, and does not restrict the use of the allowance to absorb losses in any category.

Allocation of Allowance for Loan Losses

	December 31,									
(dollars in thousands)	2012	% of Loans	2011	% of Loans	2010	% of Loans	2009	% of Loans	2008	% of Loans
Real estate:										
Construction and land development	$ 348	8%	$ 326	9%	$ 273	8%	$ 195	7%	$ 333	8%
Mortgage:										
Commercial properties	2,060	60%	2,064	62%	2,546	61%	1,942	58%	2,141	58%
Residential properties	468	18%	460	17%	432	18%	354	17%	137	17%
Total mortgage	2,528	78%	2,518	79%	2,978	79%	2,296	75%	2,278	75%
Commercial and industrial	680	13%	351	11%	455	12%	617	17%	472	16%
Consumer	15	1%	15	1%	12	1%	19	1%	37	1%
	$3,571	100%	$3,216	100%	$3,718	100%	$3,127	100%	$3,120	100%

Deposits

The principal sources of funds for the Company are core deposits (demand deposits, interest-bearing transaction accounts, money market accounts, savings deposits and certificates of deposit) from the Company's market area. The Company's deposit base includes transaction accounts, time and savings accounts and other accounts that customers use for cash management purposes and which provide the Company with a source of fee income and cross-marketing opportunities as well as a low-cost source of funds. Time and savings accounts, including money market deposit accounts, also provide a relatively stable low-cost source of funding.

Approximately 40.8% and 44.3% of the Company's deposits at December 31, 2012 and 2011, respectively, are made up of time deposits, which are generally the most expensive form of deposit because of their fixed rate and term. Time deposits in denominations of $100,000 or more can be more volatile and more expensive than time deposits of less than $100,000. However, because the Bank focuses on relationship banking, and most of these deposits are obtained from the local community, historical experience has been that large time deposits have not been more volatile or significantly more volatile or expensive than smaller denomination certificates. In the second quarter of 2011, management decided to expand the Company's funding sources and added $10.0 million of brokered deposits, which were still outstanding as of December 31, 2012. These funds were obtained at interest rates lower than local market interest rates. While sometimes requiring higher interest rates, brokered deposits carry lower acquisition costs (marketing, overhead costs) and can be obtained when required at the maturity dates desired. All of the brokered deposits are fully insured by the FDIC. This insurance and the capital position of the Company reduce the likelihood of large deposit withdrawals for reasons other than interest rate competition. There is a risk that some deposits would be lost if rates were to increase and the Company elected not to remain competitive with its own deposit rates. Under those conditions, the Company believes that it is positioned to use other sources of funds, such as borrowing on its unsecured credit facilities with other banks or the sale of loans.

The following tables provide a summary of the Company's deposit base at the dates indicated and the maturity distribution of certificates of deposit of $100,000 or more as of December 31, 2012, 2011 and 2010.

Average Deposits and Average Rate

(dollars in thousands)	December 31, 2012 Average Daily Balance	2012 Average Rate	2011 Average Daily Balance	2011 Average Rate	2010 Average Daily Balance	2010 Average Rate
Noninterest-bearing demand deposits	$ 48,993	—	$ 41,566	—	$ 39,691	—
Interest-bearing demand deposits:						
NOW accounts	17,108	0.22%	14,824	0.26%	13,794	0.22%
Money market accounts	78,479	0.46%	70,840	0.66%	64,667	1.05%
Savings accounts	6,263	0.06%	5,092	0.10%	5,065	0.10%
Certificates of deposit:						
$100,000 or more	43,978	1.14%	46,219	1.58%	49,826	2.00%
Less than $100,000	65,151	0.93%	70,329	1.41%	72,210	1.89%
Total average deposits	$259,972	0.58%	$248,870	0.90%	$245,253	2.99%

Maturities of Certificates of Deposit—$100,000 or More

(dollars in thousands)	December 31, 2012	2011	2010
Maturing in:			
3 months or less	$ 8,478	$ 5,692	$ 5,157
Over 3 months through 6 months	1,666	2,486	2,980
Over 6 months through 12 months	15,522	9,523	24,153
Over 12 months	22,962	21,951	15,275
	$48,628	$39,652	$47,565

Borrowings

For liquidity purposes and for customer convenience, the Company also utilizes short-term borrowings, which includes federal funds lines of credit to purchase overnight funds from correspondent banks and an unsecured line of credit for Bancorp. The Company also offers retail repurchase agreements, which are securities sold under an agreement to repurchase, which is considered to be a short-term borrowing. There were no retail repurchase agreements outstanding at December 31, 2012, 2011 or 2010. The following table set forth certain information regarding the Company's short-term borrowings at the dates indicated.

Short-Term Borrowings

(dollars in thousands)	2012	2011	2010
Total outstanding at year-end	$2,700	$2,700	$ 300
Average amount outstanding during the year	$2,700	$1,863	$ 430
Maximum amount outstanding at any month-end	$2,700	$2,700	$ 500
Weighted-average interest rate at year-end	2.81%	3.00%	4.25%
Weighted-average interest rate during the year	2.50%	3.49%	4.42%

The short-term borrowings at December 31, 2012 consist of an unsecured loan from an unaffiliated third party in the amount of $2.70 million with a fixed interest rate of 2.50% and matures in July 2013. The short-term borrowings at December 31, 2011 consists of an unsecured loan from an unaffiliated third party in the amount of $2.70 million with a fixed interest rate of 3.00% and matured in July 2012.

The short-term borrowings at December 31, 2010 consisted of a $4.00 million unsecured revolving line of credit borrowing arrangement from an unaffiliated financial institution with an outstanding amount of $300 thousand at a floating interest rate equal to the Wall Street Journal prime rate plus 0.50%, subject to a minimum rate of 4.25%, that matured on July 22, 2011 and has subsequently been renewed until July 22, 2013. The Company's unused lines of credit for short-term borrowings totaled $13.00 million at both December 31, 2012 and 2011. These include an unsecured line of credit from an unaffiliated financial institution for Bancorp in the amount of $4.00 million both as of December 31, 2012 and 2011, and unsecured federal funds lines of credit from two unaffiliated financial institutions for the Bank in the totaling $9.00 million both at December 31, 2012 and 2011, respectively.

Long-Term Borrowings

At December 31, 2012 and 2011, the Company had $10.00 million in borrowings under its credit facility from the Federal Home Loan Bank of Atlanta ("FHLB"). There are two advances in the amounts of $5.00 million each, which bear interest rates of 3.29% and 3.05%, and each of which matures on November 19, 2015. Outstanding advances are secured by collateral consisting of a blanket lien on qualifying loans in the Bank's residential mortgage loan portfolio.

Trust Preferred Securities/Junior Subordinated Debentures

In December 2006, Bancorp completed the private placement of an aggregate of $6.00 million of trust preferred securities through FCBI Statutory Trust I (the "Trust"), a trust subsidiary organized under Connecticut law, of which Bancorp owns all $186 thousand of the common securities. The principal asset of the Trust is $6.186 million of Bancorp's junior subordinated debentures. The interest rate on the junior subordinated debentures was a fixed rate of 6.5375% through December 15, 2011, and is adjusted quarterly thereafter to 163 basis points over three-month LIBOR. On December 15, 2012, the interest rate was adjusted to 1.9380% for the period ending March 15, 2013. The junior subordinated debentures mature on December 15, 2036, and may be redeemed at par, at Bancorp's option. The obligations of Bancorp with respect to the Trust's preferred securities constitute a full and unconditional guarantee by Bancorp of Trust's obligations with respect to the trust preferred securities to the extent set forth in the related guarantee. Subject to certain exceptions and limitations, Bancorp may elect from time to time to defer interest payments on the junior subordinated debentures, resulting in a deferral of distribution payments on the related trust securities. The proceeds from this issuance were used to repay a $450 thousand short-term debt obligation that matured in January 2007, capital injections of $4.50 million into the Bank, and the remaining proceeds were used to supplement the Company's capital for continued growth and other general corporate purposes. The trust preferred securities may currently be included in Tier 1 capital for regulatory capital adequacy purposes up to 25% of Tier 1 capital, net of goodwill, after its inclusion. The portion of the trust preferred securities not qualifying as Tier 1 capital may currently be included as part of total qualifying capital in Tier 2 capital, subject to limitation. At December 31, 2012, all of the trust preferred securities qualified as Tier 1 capital.

Capital Resources

The ability of the Company to grow is dependent on the availability of capital with which to meet regulatory capital requirements, discussed below. To the extent the Company is successful it may need to acquire additional capital through the sale of additional common stock, other qualifying equity instruments, subordinated debt or other qualifying capital instruments. There can be no assurance that additional capital will be available to the Company on a timely basis or on attractive terms. On December 15, 2006, the Company completed the issuance of $6.00 million of trust preferred securities, as discussed above, that can be recognized as capital for regulatory purposes. The Company has an unsecured revolving line of credit borrowing arrangement with an unaffiliated financial institution in

the amount of $4.00 million with no outstanding balance as of December 31, 2012 or 2011. This facility matures on July 22, 2013, has a floating interest rate equal to the Wall Street Journal prime rate plus 0.50%, subject to a minimum rate of 4.25%, and requires monthly interest payments only. The purpose of this facility is to provide capital to the Bank, as needed. The Company does not anticipate any issues with the renewal of this credit facility.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. The Company will be subject to additional requirements when its assets exceed $500 million, it has publicly issued debt or it engages in certain highly leveraged activities. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated 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 the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. 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 of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). Management believes that the Bank met all capital adequacy requirements to which it is subject as of December 31, 2012 and that the Company would meet such requirements if applicable. See Note 13 to the consolidated financial statements for a table depicting compliance with regulatory capital requirements.

As of December 31, 2012, the most recent notification from the regulatory agency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table in Note 13 to the consolidated financial statements. There are no conditions or events since that notification which management believes have changed the Bank's category.

On June 25, 2012, the Company authorized the repurchase of up to 300,000 shares of its common stock, for an aggregate expenditure of not more than $5.0 million, through September 30, 2017, or earlier termination of the program by the Board of Directors. Repurchases, if any, by the Company pursuant to this authorization are expected to enable the Company to repurchase its shares at an attractive price, and to provide a source of liquidity for the Company's shares. As of December 31, 2012 the Company had repurchased 8,650 shares, for an aggregate price of $104 thousand and an average price of $12.08 per share. The Company's prior repurchase program expired as of June 30, 2012 and had authorized the repurchase of up to 146,000 shares of its common stock, for an aggregate expenditure of not more than $4.5 million. Through June 30, 2012, under the prior repurchase plan the Company had repurchased 27,986 shares, for an aggregate price of $342 thousand and an average price of $12.22 per share.

At December 31, 2012, the Bank's capital ratios significantly exceeded the regulatory requirements for well capitalized banks, with ratios of 13.39% and 12.14% for Total Risk-Based Capital and Tier 1 Capital, respectively, compared to the regulatory minimums to be well capitalized of 10.00% and 6.00%, and compared to ratios of 13.79% and 12.53% at December 31, 2011. The slight decline in the Bank's capital ratios over the course of 2012 resulted primarily from an increase in Total Risk-Based Capital of $1.54 million, while being offset by an increase in risk-weighted assets of $18.57 million. Management of the Company believes that its level of existing capital is adequate to support continued successful implementation of the Company's business plan without the need for government capital assistance. In light of regulatory pressures on substantially all banks, and the Company's desire, to

maintain capital levels in excess of the minimum requirements for well capitalized status, the Company has relatively little room for asset growth without an additional capital infusion, through borrowing or through the issuance of additional capital stock.

During 2012, the Company declared aggregate dividends of $0.20 per common share, for a total of $303 thousand.

Inflation

The effect of changing prices on financial institutions is typically different than on non-banking companies since virtually all of a bank's assets and liabilities are monetary in nature. In particular, interest rates are significantly affected by inflation, but neither the timing nor magnitude of the changes are directly related to price level indices; therefore, the Company can best counter inflation over the long term by managing net interest income and controlling net increases in noninterest income and expenses.

Off-Balance Sheet Arrangements

With the exception of the Company's obligations in connection with its trust preferred securities and in connection with its irrevocable letters of credit and loan commitments, the Company has no other off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources, that is material to investors. For additional information on off-balance sheet arrangements, please see "Note 1—Nature of Operations and Significant Accounting Policies—Recent Accounting Pronouncements," "Note 9—Leasing Arrangements," "Note 16—Transactions with Related Parties—Lease Agreement" and "Note 17—Commitment and Contingencies" to the consolidated financial statements.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Frederick County Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records, that in reasonable detail, accurately and fairly reflect the transactions and disposition of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with the authorizations of Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material impact on the financial statements. The internal control system contains monitoring mechanisms, and appropriate actions taken to correct identified deficiencies. The Audit Committee of the Board of Directors (the "Committee"), is comprised entirely of outside directors who are independent of management. The Committee is responsible for the appointment and compensation of the independent auditors and makes decisions regarding the appointment or removal of members of the internal audit function. The Committee meets periodically with management, the independent registered public accounting firm, and the internal auditors to ensure that they are carrying out their responsibilities. The Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting, and auditing procedures of the Company in addition to reviewing the Company's financial reports. The independent registered public accounting firm and the internal auditors have full and unlimited access to the Audit Committee, with or without the presence of management, to discuss the adequacy of internal control over financial reporting, and any other matters which they believe should be brought to the attention of the Audit Committee.

There are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of internal controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. In addition, because of changes in conditions and circumstances, the effectiveness of internal control over financial reporting may vary over time and controls may become inadequate, and the degree of compliance with the policies and procedures may deteriorate, over time.

Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the internal control over financial reporting based on the framework in "Internal Control—Integrated Framework" promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria. Based on this evaluation under the "COSO" criteria, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2012. Management's assessment concluded that there were no material weaknesses within the Company's internal control over financial reporting.

There was no change in the Company's internal control over financial reporting that occurred during the fourth quarter of 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. As the Company is a smaller reporting company, management's report is not required to be attested to by the Company's registered public accounting firm.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated, as of the last day of the period covered by this report, the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15 under the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Frederick County Bancorp, Inc.
Frederick, Maryland

We have audited the accompanying consolidated balance sheets of Frederick County Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2012. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Frederick County Bancorp, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years in the two-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States.

/s/ Stegman & Company

Baltimore, Maryland
February 19, 2013

Frederick County Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2012	December 31, 2011
Assets		
Cash and due from banks	$ 2,202	$ 1,680
Federal funds sold	—	1,105
Interest-bearing deposits in other banks	30,349	24,063
Cash and cash equivalents	32,551	26,848
Investment securities available-for-sale—at fair value	34,788	36,423
Restricted stock	1,504	1,510
Loans	229,288	212,315
Less: Allowance for loan losses	(3,571)	(3,216)
Net loans	225,717	209,099
Bank premises and equipment	6,734	6,459
Bank owned life insurance	7,788	4,601
Foreclosed properties	2,048	3,491
Accrued interest and other assets	3,329	3,581
Total assets	$314,459	$292,012
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing deposits	$ 51,256	$ 43,030
Interest-bearing deposits	216,857	203,457
Total deposits	268,113	246,487
Short-term borrowings	2,700	2,700
Long-term borrowings	10,000	10,000
Junior subordinated debentures	6,186	6,186
Accrued interest and other liabilities	1,204	1,182
Total liabilities	288,203	266,555
Commitments and Contingencies (Notes 9, 16, and 17)		
Shareholders' Equity		
Common stock, per share par value $0.01; 10,000,000 shares authorized; 1,508,574 and 1,514,314 shares issued and outstanding, respectively	15	15
Additional paid-in capital	15,663	15,621
Retained earnings	10,110	9,018
Accumulated other comprehensive income	468	803
Total shareholders' equity	26,256	25,457
Total liabilities and shareholders' equity	$314,459	$292,012

See Notes to Consolidated Financial Statements.

Frederick County Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income

(dollars in thousands, except per share amounts)	Years Ended December 31, 2012	2011
Interest income:		
Interest and fees on loans	$ 11,918	$ 12,313
Interest and dividends on investment securities:		
Taxable	597	692
Tax exempt	385	488
Dividends	54	52
Interest on federal funds sold	—	1
Other interest income	59	66
Total interest income	13,013	13,612
Interest expense:		
Interest on deposits	1,514	2,232
Interest on short-term borrowings	76	65
Interest on long-term borrowings	322	321
Interest on junior subordinated debentures	132	392
Total interest expense	2,044	3,010
Net interest income	10,969	10,602
Provision for loan losses	1,275	1,740
Net interest income after provision for loan losses	9,694	8,862
Noninterest income:		
Securities gains	1,050	386
Bank owned life insurance income	187	101
Loss on sale of foreclosed properties	(82)	(18)
Service fees	355	305
Other operating income	318	221
Total noninterest income	1,828	995
Noninterest expenses:		
Salaries and employee benefits	5,071	4,949
Occupancy and equipment expenses	1,412	1,268
Other operating expenses	3,120	2,300
Total noninterest expenses	9,603	8,517
Income before provision for income taxes	1,919	1,340
Provision for income taxes	524	316
Net income	$ 1,395	$ 1,024
Basic earnings per share	$ 0.92	$ 0.69
Diluted earnings per share	$ 0.92	$ 0.68
Basic weighted average number of shares outstanding	1,513,941	1,487,307
Diluted weighted average number of shares outstanding	1,515,663	1,513,763
Dividends declared per share	$ 0.20	$ 0.10

See Notes to Consolidated Financial Statements.

Frederick County Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(dollars in thousands)	Years Ended December 31	
	2012	2011
Net income	$1,395	$1,024
Changes in net unrealized gains on securities available for sale, net of income taxes of $196 in 2012 and $696 in 2011	301	1,068
Reclassification adjustment for gains realized, net of income taxes of $414 in 2012 and $152 in 2011	(636)	(234)
Total comprehensive income	$1,060	$1,858

See Notes to Consolidated Financial Statements.

Frederick County Bancorp, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

(dollars in thousands)	Years Ended December 31, 2012 and 2011					
	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2011	1,469,364	15	15,069	8,142	(31)	23,195
Comprehensive income				1,024	834	1,858
Dividends declared on common stock, $0.10 per share				(148)		(148)
Shares repurchased	(22,850)		(280)			(280)
Shares issued under stock option transactions	67,800		679			679
Compensation expense from stock option transactions			109			109
Excess tax benefit from stock-based awards			44			44
Balance, December 31, 2011	1,514,314	$15	$15,621	$ 9,018	$ 803	$25,457
Comprehensive income				1,395	(335)	1,060
Dividends declared on common stock, $0.20 per share				(303)		(303)
Shares repurchased	(8,650)		(104)			(104)
Shares issued under stock option transactions	2,910		33			33
Compensation expense from stock option transactions			107			107
Excess tax benefit from stock-based awards			6			6
Balance, December 31, 2012	1,508,574	$15	$15,663	$10,110	$ 468	$26,256

See Notes to Consolidated Financial Statements.

Frederick County Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(dollars in thousands)	Years Ended December 31 2012	2011
Cash flows from operating activities:		
Net income	$ 1,395	$ 1,024
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	373	286
Deferred income taxes (benefits)	(239)	132
Provision for loan losses	1,275	1,740
Securities gains	(1,050)	(386)
Net premium amortization on investment securities	439	349
Loss on disposal of bank premises and equipment	7	—
Bank owned life insurance income	(187)	(101)
Loss on sale of foreclosed property	82	18
Stock-based compensation expense	107	109
Provision for foreclosed properties	716	124
Excess tax benefit from stock-based awards	(6)	(44)
Decrease in accrued interest and other assets	497	191
Increase (decrease) in accrued interest and other liabilities	241	(80)
Net cash provided by operating activities	3,650	3,362
Cash flows from investing activities:		
Purchases of investment securities available-for-sale	(23,313)	(18,000)
Proceeds from sales of investment securities available-for-sale	17,623	7,612
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	7,382	5,558
Redemptions of restricted stock	6	11
Net increase in loans	(17,528)	(8,314)
Purchase of bank owned life insurance	(3,000)	(4,500)
Purchases of bank premises and equipment	(654)	(1,769)
Proceeds from sale of foreclosed properties	279	265
Net cash used in investing activities	(19,205)	(19,137)
Cash flows from financing activities:		
Net increase in NOW, money market accounts, savings accounts and noninterest-bearing deposits	21,353	4,880
Net increase (decrease) in time deposits	273	(7,017)
Proceeds from short-term borrowings	—	2,700
Repayment of short-term borrowings	—	(300)
Proceeds from issuance of common stock	33	679
Repurchase of common stock	(104)	(280)
Dividends paid on common stock	(303)	(148)
Excess tax benefit from stock-based awards	6	44
Net cash provided by financing activities	21,258	558
Net increase (decrease) in cash and cash equivalents	5,703	(15,217)
Cash and cash equivalents—beginning of year	26,848	42,065
Cash and cash equivalents—end of year	$ 32,551	$ 26,848
Supplemental cash flow disclosure:		
Interest paid	$ 2,047	$ 3,034
Income taxes paid	$ 764	$ 522
Transfer of loans to foreclosed properties	$ —	$ 3,144
Transfer of foreclosed properties to loans	$ 366	$ —

See Notes to Consolidated Financial Statements.

FREDERICK COUNTY BANCORP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies:

Frederick County Bancorp, Inc. (the "Bancorp"), the parent company for its wholly-owned subsidiary Frederick County Bank (the "Bank" and together with Bancorp, the "Company"), was organized in September 2003. The Bank was incorporated under the laws of the State of Maryland in August 2000 and commenced banking operations in October 2001. The Bank provides its customers with various banking services. The Bank offers various loan and deposit products to their customers. The Bank's customers include individuals and commercial enterprises within its principal market area consisting of Frederick County, Maryland. The Bank has a direct subsidiary established to hold foreclosed properties known as FCB Hagerstown, LLC. Bancorp also has a subsidiary trust, established to issue trust preferred securities, and one direct subsidiary established to hold foreclosed properties known as FCB Holdings, Inc.. See Note 8 for additional disclosures related to the subsidiary trust, which issued trust preferred securities.

Additionally, the Bank maintains correspondent banking relationships and transacts daily federal funds sales on an unsecured basis with regional correspondent banks. Note 3 discusses the types of securities the Bank invests in. Note 4 discusses the types of lending that the Bank engages in. The Bank does not have any significant concentrations to any one industry or customer.

The accounting and reporting policies and practices of the Company conform with accounting principles generally accepted in the United States of America. The following is a summary of the Company's significant accounting policies:

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of the Company and the Bank.

In consolidation, all significant intercompany balances and transactions have been eliminated.

The Company also has an investment in FCBI Statutory Trust I, a statutory trust that is not consolidated in accordance with *Accounting Standards Codification* ("ASC") Topic 810 *Consolidation*. See Note 8.

Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Comprehensive income:

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income.

Note 1. Nature of Operations and Significant Accounting Policies: (Continued)

Presentation of cash flows:

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks (including cash items in process of clearing) and interest-bearing deposits in banks with an original maturity of 90 days or less, and federal funds sold. Generally, federal funds are sold for one-day periods.

Investment securities:

Securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, over their contractual lives.

Securities classified as available-for-sale are equity securities with readily determinable fair values and those debt securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of shareholders' equity, net of the related deferred tax effect.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income.

Gains and losses realized on sales of investment securities, determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the consolidated statements of income. Additionally, declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. 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.

Restricted stock is stock from the Federal Home Loan Bank of Atlanta ("FHLB"), the Federal Reserve Bank and the Atlantic Central Banker's Bank, which are restricted as to their marketability. Because no ready market exists for these investments and they have no quoted market value, the Bank's investment in these stocks are carried at cost.

Loans and allowance for loan losses:

Loans are carried at the amount of unpaid principal, adjusted for deferred loan fees and origination costs. Interest on loans is accrued based on the principal amounts outstanding. Nonrefundable loan fees and related direct costs are deferred and the net amount is amortized to income as a yield adjustment over the life of the loan using the interest method. When principal or interest is delinquent for ninety days or more, the Company evaluates the loan for nonaccrual status.

Note 1. Nature of Operations and Significant Accounting Policies: (Continued)

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance is based on two basic principles of accounting: (i) ASC Topic 450 *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) ASC Topic 310 *Receivables*, which requires that losses be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Company has concerns about the ability to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Company's allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term.

The specific allowance component is used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the Company's calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the fair market value of collateral. These factors are combined to estimate the probability and severity of inherent losses. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately evaluate individual consumer and residential loans for impairment.

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Company's internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (commercial, commercial real estate, commercial construction, residential real estate, residential construction or installment). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity and size of the individual loans within the

Note 1. Nature of Operations and Significant Accounting Policies: (Continued)

particular loan category. Classified loans are assigned a higher allowance factor than non-classified loans due to management's concerns regarding collectability or management's knowledge of particular elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements). Current economic conditions take into account the average unemployment rate for Frederick County, Maryland, the State of Maryland and for the nation, with the most significance given to the Frederick County data. The allowance factors assigned differ by loan type.

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Bank to make additions to the allowance for loan losses based on their judgments of collectibility based on information available to them at the time of their examination.

Loans are placed into a nonaccruing status and classified as nonperforming when the principal or interest has been in default for a period of 90 days or more unless the obligation is well secured and in the process of collection. A debt is "well secured" if it is secured by (i) pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt, (including accrued interest), in full, or (ii) the guarantee of a financially responsible party. A debt is "in the process of collection" if collection on the debt is proceeding in due course either through legal action, including judgment enforcement procedure, or, in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status.

Loans classified as substandard or worse are considered for impairment testing. A substandard loan shows signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. The borrower on such loans typically exhibits one or more of the following characteristics: financial ratios and profitability margins are well below industry average; a negative cash flow position exists; debt service capacity is insufficient to the service debt and an improvement in the cash flow position is unlikely within the next twelve months; secondary and tertiary means of debt repayment are weak. Loans classified as substandard are characterized by the probability that the Bank will not collect amounts due according to the contractual terms or sustain some loss if the deficiencies are not corrected.

Loss potential, while existing with respect to the aggregate amount of substandard (or worse) loans, does not have to exist in any individual assets classified as substandard. Such credits are also evaluated for nonaccrual status.

Impaired loans include loans that have been classified as substandard or worse. However, certain of such loans have been paying as agreed and have remained current, with some financial issues related

Note 1. Nature of Operations and Significant Accounting Policies: (Continued)

to cash flow that has caused some concern as to the ability of the borrower to perform in accordance with the current loan terms, but it has not been extreme enough to require the loan be put into a nonaccruing status. Cash receipts on impaired loans are recorded as interest income as received, unless the loan is in a nonaccrual status.

The Company's charge-off policy states after all collection efforts have been exhausted and the loan is deemed to be a loss, it will be charged to the Company's established allowance for loan losses. Consumer loans subject to the Uniform Retail Credit Classification are charged-off as follows (a) closed end loans are charged-off no later than 120 days after becoming delinquent, (b) consumer loans to borrowers who subsequently declare bankruptcy, where the Company is an unsecured creditor, are charged-off within 60 days of receipt of the notification from the bankruptcy court, (c) fraudulent loans are charged-off within 90 days of discovery and (d) death of a borrower will cause a charge-off to be incurred at such time an actual loss is determined. All other types of loans are generally evaluated for loss potential at the 90th day past due threshold, and any loss is recognized no later than the 120th day past due threshold; each loss is evaluated on its specific facts regarding the appropriate timing to recognize the loss.

Bank premises and equipment:

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. The provision for depreciation is computed using straight-line and accelerated methods based on the estimated useful lives of the assets, which range from 5 to 10 years for bank equipment and 39 years for bank buildings. Leasehold improvements are amortized over the lesser of the terms of the leases or their estimated useful lives. Expenditures for improvements, which extend the life of an asset, are capitalized and depreciated over the asset's remaining useful life. Gains or losses realized on the disposition of properties and equipment are reflected in the statements of income. Expenditures for repairs and maintenance are charged to operating expenses as incurred.

Bank owned life insurance:

The Bank purchased single-premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policies is classified in noninterest income.

Foreclosed properties:

Foreclosed properties include properties that have been acquired in complete or partial satisfaction of a debt. These properties are initially recorded at fair value on the date of acquisition. Any write-downs at the time of acquisition are charged to the allowance for loan losses. Subsequent to acquisition, a valuation allowance is established, if necessary, to report these assets at the lower of (a) fair value minus estimated costs to sell or (b) cost. Gains and losses realized on the sale, and any adjustments resulting from periodic re-evaluation of this property are included in noninterest income or expense, as appropriate. Net costs of maintaining and operating the properties are expensed as incurred.

Stock-based compensation plan:

The Company maintains two stock-based compensation plans, as described more fully in Note 10, which provide for grants of incentive and non-incentive stock options, restricted stock and/or restricted stock units. These plans have been presented to and approved by the Company's shareholders.

Note 1. Nature of Operations and Significant Accounting Policies: (Continued)

Compensation cost for all stock-based awards is measured at fair value on date of grant and recognized over the service period for awards expected to vest. Such value is recognized as expense over the service period, net of estimated forfeitures. The estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience.

Income taxes:

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. In addition, deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. We recognize interest and penalties related to income tax matters in income tax expense.

The Company does not have uncertain tax positions that are deemed material, and did not recognize any adjustments for unrecognized tax benefits. The Company's policy is to recognize interest and penalties on income taxes in other noninterest expenses. The Company remains subject to examination for income tax returns for the years ending after December 31, 2009.

Fair value measurements:

The Company follows the guidance of ASC Topic 825 *Financial Instruments* and ASC Topic 820 *Fair Value Measurements and Disclosures*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Per share amounts:

Earnings per share ("EPS") are disclosed as basic and diluted. Basic EPS is generally computed by dividing net income by the weighted-average number of common shares outstanding for the period,

Note 1. Nature of Operations and Significant Accounting Policies: (Continued)

whereas diluted EPS essentially reflects the potential dilution in basic EPS, determined using the treasury stock method, that could occur if other contracts to issue common stock were exercised.

(dollars in thousands, except per share amounts)	Years Ended December 31, 2012	2011
Net income	$ 1,395	$ 1,024
Basic earnings per share	$ 0.92	$ 0.69
Diluted earnings per share	$ 0.92	$ 0.68
Basic weighted average number of shares outstanding	1,513,941	1,487,307
Effect of dilutive securities—stock options	1,722	26,456
Diluted weighted average number of shares outstanding	1,515,663	1,513,763
Anti-dilutive securities outstanding	36,737	—

Transfers of financial assets:

The Company accounts for transfers and servicing of financial assets in accordance with ASC Topic 860 *Transfers and Servicing*. Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Valuation of long-lived assets:

The Company accounts for the valuation of long-lived assets under ASC Topic 360 *Property, Plant and Equipment*. This guidance requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Segment reporting:

ASC Topic 280 *Segment Reporting*, requires that an enterprise report selected information about operating segments in its financial reports issued to its shareholders. Based on the analysis performed by the Company, management has determined that the Company only has one operating segment, which is commercial banking. The chief operating decision-makers use consolidated results to make operating and strategic decisions, and therefore, are not required to disclose any additional segment information.

Recent Accounting Pronouncements

There are no recent accounting pronouncements that pertain to the Company's consolidated financial statements.

Note 2. Compensating Balances:

Compensating balance arrangements exist with various correspondent banks. These noninterest-bearing deposits are maintained in lieu of cash payments for standard bank services. The required balances amounted to $750 thousand at each of December 31, 2012 and 2011. In addition, for the reserve maintenance period in effect at December 31, 2012 and 2011, the Company was required to maintain balances of $350 thousand with the Federal Reserve Bank.

Note 3. Investments:

The amortized cost and estimated fair value of securities classified as available-for-sale at December 31, 2012 and 2011 are as follows:

Available-for-sale

December 31, 2012 (dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
States and political subdivisions:				
Due after five years through ten years	$ 3,234	$ 82	$—	$ 3,316
Due after ten years	6,468	146	9	6,605
	9,702	228	9	9,921
Small business administration:				
Due after ten years	1,763	84	—	1,847
Residential mortgage-backed debt securities	22,250	470	—	22,720
Equity securities	300	—	—	300
	$34,015	$782	$ 9	$34,788

December 31, 2011 (dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
States and political subdivisions:				
Due after five years through ten years	$ 6,038	$ 399	$—	$ 6,437
Due after ten years	6,814	415	—	7,229
	12,852	814	—	13,666
Small business administration:				
Due after ten years	889	35	—	924
Residential mortgage-backed debt securities	21,055	481	3	21,533
Equity securities	300	—	—	300
	$35,096	$1,330	$ 3	$36,423

Note 3. Investments: (Continued)

Information pertaining to securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows:

December 31, 2012 (dollars in thousands)	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for 12 months and greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-backed debt securities	$1,534	$9	$—	$—	$1,534	$9
Total temporarily impaired securities	$1,534	$9	$—	$—	$1,534	$9

December 31, 2011 (dollars in thousands)	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for 12 months and greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-backed debt securities	$1,351	$3	$—	$—	$1,351	$3
Total temporarily impaired securities	$1,351	$3	$—	$—	$1,351	$3

The bonds in an unrealized loss position at December 31, 2012 and 2011 were temporarily impaired due to the current interest rate environment and not increased credit risk. In estimating other-than-temporary impairment losses, the Company considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, (iii) the Company does not intend to sell these securities and (iv) it is more likely than not that the Company will not be required to sell before a period of time sufficient to allow for any anticipated recovery in cost. All securities owned by the Company are payable at par at maturity. The temporarily impaired securities consisted of two (2) state and political subdivisions, one rated AA− by Standard and Poor's and the other rated Aa3 by Moody's, with an aggregated book value of $1.31 million.

Included in the investment portfolio at December 31, 2012 and 2011 are securities carried at $8.94 million and $5.43 million, respectively, which are pledged for public fund deposits, to secure repurchase agreements and for other purposes as required and permitted by law.

Gross gains of $1.05 million and $386 thousand in 2012 and 2011, respectively, were realized from sales of investment securities available-for-sale with proceeds of $17.62 million and $13.35 million, respectively.

Note 3. Investments: (Continued)

Restricted Stock

The following table shows the amounts of restricted stock as of December 31, 2012 and 2011:

(dollars in thousands)	2012	2011
Federal Home Loan Bank of Atlanta	$ 884	$ 890
Federal Reserve Bank	580	580
Atlantic Central Bankers Bank	40	40
	$1,504	$1,510

Note 4. Loans and Allowance for Loan Losses:

Loans consist of the following at December 31, 2012 and 2011:

(dollars in thousands)	2012	2011
Real estate—construction and land development	$ 19,448	$ 18,996
Real estate—mortgage:		
Commercial properties	137,217	131,329
Residential properties	40,288	35,863
Total real estate—mortgage	177,505	167,192
Commercial and industrial	30,470	24,273
Consumer	1,865	1,854
Total loans	229,288	212,315
Less allowance for loan losses	(3,571)	(3,216)
Net loans	$225,717	$209,099

At December 31, 2012 and 2011 the Company has $32.09 million and $30.31 million of commercial real estate and residential real estate mortgage loans pledged as collateral for certain borrowings.

The Company's goal is to mitigate risks from an unforeseen threat to the loan portfolio as a result of an economic downturn or other negative influences. Plans that aid in mitigating these potential risks in managing the loan portfolio include: enforcing loan policies and procedures, evaluating the borrower's business plan through the loan term, identifying and monitoring primary and alternative sources of repayment, and obtaining adequate collateral to mitigate loss in the event of liquidation. Specific reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is used to estimate potential loss exposure and to provide a measuring system for setting general and specific reserve allocations.

As of December 31, 2012, the real estate loan portfolio constituted 86% of the total loan portfolio. Included in this amount were 8% construction and land development, 60% commercial real estate and 18% residential real estate loans. The commercial real estate can be further broken down to 44% of owner occupied properties and 26% of non-owner occupied properties, as a percent of total loans.

The Company's construction and land development loans are secured by real property where the loan funds will be used to acquire land and to construct or improve appropriately zoned real property

Note 4. Loans and Allowance for Loan Losses: (Continued)

for the creation of income producing or owner occupied commercial properties. Borrowers are generally required to put equity into the project at levels determined by the loan committee and usually are underwritten with a maximum term of 24 months.

Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan. The debt service coverage ratio is ordinarily at 1.20 to 1.00. These loans are generally underwritten with a term not greater than 10 years or the remaining useful life of the property, whichever is lower. The preferred term is between 5 to 7 years, with amortization to a maximum of 25 years.

Residential real estate loans are secured by the improved real property of the borrower and are usually underwritten with a term of 1 to 5 years, but may be underwritten with terms up to 30 years.

The Company also makes commercial and industrial loans for a variety of purposes, which include working capital, equipment and accounts receivable financing. This category represents about 13% of the loan portfolio at December 31, 2012 and was generally with a variable interest rate. Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required, but may be limited.

The following tables show the allowance for loan losses and recorded investment in loans for the years ended December 31, 2012 and 2011:

2012 (dollars in thousands)	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:						
Beginning balance	$ 326	$ 2,064	$ 460	$ 351	$ 15	$ 3,216
Charge-offs	(62)	(120)	(47)	(723)	(5)	(957)
Recoveries	—	—	1	35	1	37
Provisions	84	116	54	1,017	4	1,275
Ending balance	$ 348	$ 2,060	$ 468	$ 680	$ 15	$ 3,571
Ending balance: individually evaluated for impairment	$ 99	$ 90	$ 46	$ —	$ —	$ 235
Ending balance: collectively evaluated for impairment	$ 249	$ 1,970	$ 422	$ 680	$ 15	$ 3,336
Loans:						
Ending balance	$19,448	$137,217	$40,288	$30,470	$1,865	$229,288
Ending balance: individually evaluated for impairment	$ 2,240	$ 8,155	$ 1,805	$ 1,259	$ 52	$ 13,511
Ending balance: collectively evaluated for impairment	$17,208	$129,062	$38,483	$29,211	$1,813	$215,777

Note 4. Loans and Allowance for Loan Losses: (Continued)

2011 (dollars in thousands)	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:						
Beginning balance	$ 273	$ 2,546	$ 432	$ 455	$ 12	$ 3,718
Charge-offs	(2)	(1,969)	—	(299)	—	(2,270)
Recoveries	—	6	21	1	—	28
Provisions	55	1,481	7	194	3	1,740
Ending balance	$ 326	$ 2,064	$ 460	$ 351	$ 15	$ 3,216
Ending balance: individually evaluated for impairment	$ 100	$ 81	$ 46	$ 1	$ —	$ 228
Ending balance: collectively evaluated for impairment	$ 226	$ 1,983	$ 414	$ 350	$ 15	$ 2,988
Loans:						
Ending balance	$18,996	$131,329	$35,863	$24,273	$1,854	$212,315
Ending balance: individually evaluated for impairment	$ 4,281	$ 9,906	$ 2,141	$ 5,195	$ 17	$ 21,540
Ending balance: collectively evaluated for impairment	$14,715	$121,423	$33,722	$19,078	$1,837	$190,775

Credit quality indicators as of December 31, 2012 and 2011 are as follows:

Internally assigned grade:

Pass—loans in this category have strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention—loans in this category are currently protected but are potentially weak. The credit risk may be relatively minor, yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard—loans in this category show signs of continuing negative financial trends and unprofitability and therefore, are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful—loans in this category are illiquid and highly leveraged, have negative net worth, cash flow, and continuing trend serious losses. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as loss is deferred until its more exact status may be determined.

Loss—loans in this category are considered uncollectible and of such little value that their continuance as bankable loans is not warranted. This classification does not mean that the loan has no recovery value, but that it is not practical to defer writing it off, even though partial recovery may be effected in the future. Such credits should be recommended for charge-off.

Note 4. Loans and Allowance for Loan Losses: (Continued)

The information for each of the credit quality indicators is updated on a quarterly basis in conjunction with the determination of the adequacy of the allowance for loan losses.

Commercial credit exposure—Credit risk profile by internally assigned grade:

December 31, 2012 (dollars in thousands)	Construction and Land Development	Commercial Real Estate	Commercial and Industrial
Pass	$14,974	$123,535	$27,139
Special mention	1,957	5,899	2,258
Substandard	2,517	7,783	1,073
Total	$19,448	$137,217	$30,470

December 31, 2011 (dollars in thousands)	Construction and Land Development	Commercial Real Estate	Commercial and Industrial
Pass	$12,637	$116,689	$17,207
Special mention	2,087	5,434	1,129
Substandard	4,272	9,206	5,937
Total	$18,996	$131,329	$24,273

Consumer credit exposure—Credit risk profile by internally assigned grade:

December 31, 2012 (dollars in thousands)	Residential Real Estate	Consumer
Pass	$37,594	$1,731
Special mention	1,438	95
Substandard	1,256	39
Total	$40,288	$1,865

December 31, 2011 (dollars in thousands)	Residential Real Estate	Consumer
Pass	$33,122	$1,777
Special mention	714	—
Substandard	2,027	77
Total	$35,863	$1,854

Note 4. Loans and Allowance for Loan Losses: (Continued)

Information on impaired loans for the years ended December 31, 2012 and 2011 are as follows:

2012 (dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Construction and land development	$ 1,452	$ 1,477	$ —	$ 2,602	$114
Commercial real estate	7,039	7,721	—	8,535	497
Residential real estate	1,619	1,619	—	1,668	105
Commercial and industrial	1,259	1,614	—	2,972	99
Consumer	52	52	—	23	5
Total	$11,421	$12,483	$ —	$15,800	$820
With an allowance recorded:					
Construction and land development	$ 788	$ 788	$ 99	$ 1,042	$ 51
Commercial real estate	1,116	1,116	90	862	77
Residential real estate	186	186	46	542	13
Commercial and industrial	—	—	—	126	—
Total	$ 2,090	$ 2,090	$235	$ 2,572	$141
Total					
Construction and land development	$ 2,240	$ 2,265	$ 99	$ 3,644	$165
Commercial real estate	8,155	8,837	90	9,397	574
Residential real estate	1,805	1,805	46	2,210	118
Commercial and industrial	1,259	1,614	—	3,098	99
Consumer	52	52	—	23	5
Grand Total	$13,511	$14,573	$235	$18,372	$961

Note 4. Loans and Allowance for Loan Losses: (Continued)

2011 (dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Construction and land development	$ 2,510	$ 2,510	$ —	$ 2,274	$ 146
Commercial real estate	9,217	10,059	—	8,375	551
Residential real estate	1,950	1,950	—	1,157	141
Commercial and industrial	5,163	5,163	—	4,671	305
Consumer	17	17	—	9	1
Total	$18,857	$19,699	$ —	$16,486	$1,144
With an allowance recorded:					
Construction and land development	$ 1,771	$ 1,771	$100	$ 1,068	$ 103
Commercial real estate	689	689	81	2,713	48
Residential real estate	191	191	46	354	13
Commercial and industrial	32	32	1	223	2
Total	$ 2,683	$ 2,683	$228	$ 4,358	$ 166
Total					
Construction and land development	$ 4,281	$ 4,281	$100	$ 3,342	$ 249
Commercial real estate	9,906	10,748	81	11,088	599
Residential real estate	2,141	2,141	46	1,511	154
Commercial and industrial	5,195	5,195	1	4,894	307
Consumer	17	17	—	9	1
Grand Total	$21,540	$22,382	$228	$20,844	$1,310

Age analysis tables of past due loans as of December 31, 2012 and 2011 are as follows:

December 31, 2012 (dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total	Greater than 90 Days and Still Accruing
Construction and land development	$ —	$ —	$ 689	$ 689	$ 18,759	$ 19,448	$—
Commercial real estate	473	—	222	695	136,522	137,217	—
Residential real estate	260	198	129	587	39,701	40,288	—
Commercial and industrial	67	—	—	67	30,403	30,470	—
Consumer	13	—	—	13	1,852	1,865	—
Total	$813	$198	$1,040	$2,051	$227,237	$229,288	$—

Note 4. Loans and Allowance for Loan Losses: (Continued)

December 31, 2011 (dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total	Greater than 90 Days and Still Accruing
Construction and land development	$ —	$ —	$1,049	$1,049	$ 17,947	$ 18,996	$—
Commercial real estate	1,104	1,094	795	2,993	128,336	131,329	—
Residential real estate	364	49	148	561	35,302	35,863	—
Commercial and industrial	116	—	32	148	24,125	24,273	—
Consumer	2	26	—	28	1,826	1,854	—
Total	$1,586	$1,169	$2,024	$4,779	$207,536	$212,315	$—

Information on performing and nonaccrual impaired loans as of December 31, 2012 and 2011 is as follows:

(dollars in thousands)	December 31, 2012	December 31, 2011
Impaired performing loans:		
Construction and land development	$ 1,551	$ 3,232
Commercial real estate	5,110	7,022
Residential real estate	486	873
Commercial and industrial	443	4,875
Total impaired performing loans	$ 7,590	$16,002
Impaired nonperforming loans:		
Nonaccrual loans:		
Construction and land development	$ 657	$ 988
Commercial real estate	909	426
Residential real estate	262	148
Commercial and industrial	—	32
Consumer	39	—
Accruing troubled debt restructurings:		
Commercial real estate	257	2,089
Residential real estate	1,057	1,120
Commercial and industrial	769	288
Consumer	13	17
Nonaccrual troubled debt restructurings:		
Construction and land development	32	61
Commercial real estate	1,879	369
Commercial and industrial	47	—
Total impaired nonperforming loans	$ 5,921	$ 5
Total impaired loans	$13,511	$21,540

Note 4. Loans and Allowance for Loan Losses: (Continued)

Information on troubled debt restructurings for the years ended December 31, 2012 and 2011 is as follows:

2012 (dollars in thousands)	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Troubled debt restructurings:			
Commercial and industrial	2	$1,172	$1,172
Total	2	$1,172	$1,172

The troubled debt restructured loans shown in the table were modified during 2012 with the following terms: one (1) loan in the amount of $550 thousand converted to interest only periods for six to twelve months; and one (1) loan in the amount of $622 thousand that has been re-amortized.

2011 (dollars in thousands)	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Troubled debt restructurings:			
Commercial real estate	2	$ 441	$ 441
Residential real estate	3	855	855
Total	5	$1,296	$1,296

The troubled debt restructured loans shown in the table were modified during 2011 with the following terms: four (4) loans in the aggregate amount of $728 thousand converted to interest only periods for six to twelve months; and one (1) loan in the amount of $568 thousand that has been re-amortized.

There were no loans as of December 31, 2012 that had been modified as troubled debt restructurings during 2012 and then subsequently re-defaulted in 2012.

At December 31, 2012 there are no commitments to lend additional funds to any borrower whose loan terms have been modified in a troubled debt restructuring.

Note 5. Bank Premises and Equipment:

Bank premises and equipment consisted of the following at December 31, 2012 and 2011:

(dollars in thousands)	2012	2011
Land	$ 2,683	$ 2,683
Construction in Progress	6	1,123
Buildings	3,441	2,269
Furniture and equipment	2,665	2,152
Leasehold improvements	516	477
	9,311	8,704
Less accumulated depreciation and amortization	(2,577)	(2,245)
	$ 6,734	$ 6,459

Depreciation and amortization charged to operations amounted to $373 thousand in 2012 and $277 thousand in 2011.

Note 6. Deposits:

Certificates of deposit and other time deposits issued in denominations of $100 thousand or more totaled $48.63 million and $39.65 million at December 31, 2012 and 2011, respectively, and are included in interest-bearing deposits in the consolidated balance sheet.

At December 31, 2012, the maturity distribution of certificates of deposit are as follows:

(dollars in thousands) Maturing in:	Certificates of Deposit
2013	$ 62,420
2014	21,057
2015	12,880
2016	8,608
2017	4,484
	$109,449

Interest on deposits for the years ended December 31, 2012 and 2011 consists of the following:

(dollars in thousands)	2012	2011
NOW accounts	$ 38	$ 38
Savings accounts	4	5
Money market accounts	364	465
Certificates of deposit $100,000 and over	501	730
Certificates of deposit under $100,000	607	994
	$1,514	$2,232

Note 7. Borrowings:

During 2012 and 2011, the Company had no sales of securities under agreements to repurchase the same securities.

Short-term borrowings:

(dollars in thousands)	2012	2011
Total outstanding at year-end	$2,700	$2,700
Average amount outstanding during the year	$2,700	$1,863
Maximum amount outstanding at any month-end	$2,700	$2,700
Weighted-average interest rate at year-end	2.81%	3.00%
Weighted-average interest rate during the year	2.50%	3.49%

The Company's unused lines of credit for short-term borrowings totaled $13.00 million and $13.00 million at December 31, 2012 and 2011, respectively. These include an unsecured line of credit from an unaffiliated financial institution for Bancorp in the amount of $4.00 million at each of December 31, 2012 and 2011, and unsecured federal funds lines of credit from unaffiliated financial

Note 7. Borrowings: (Continued)

institutions for the Bank in an aggregate amount of $9.00 million at each of December 31, 2012 and 2011.

Long-Term Borrowings

The Company has a secured line of credit with the FHLB in the amount of $23.64 million, which is secured by a blanket lien on its 1-4 family residential mortgage loan portfolio and certain commercial real estate loans. At December 31, 2012 and 2011, the Company had $10.00 million in borrowings under this credit facility. There were two fixed rate advances in the amounts of $5.00 million each, with rates of 3.29% and 3.05%, and with a maturity of November 19, 2015.

Note 8. Trust preferred securities/junior subordinated debentures:

In December 2006, Bancorp completed the private placement of an aggregate of $6.00 million of trust preferred securities through FCBI Statutory Trust I (the "Trust"), a trust subsidiary organized under Connecticut law, of which Bancorp owns all of the common securities of $186 thousand. The principal asset of the Trust is a similar amount of Bancorp's junior subordinated debentures. The interest rate on the junior subordinated debentures was a fixed rate of 6.5375% through December 15, 2011, and is adjusted quarterly thereafter to 163 basis points over three-month LIBOR. On December 15, 2012, the most recent interest reset date, the interest rate was adjusted to 1.9380% for the period ending March 15, 2013. The junior subordinated debentures mature on December 15, 2036, and may be redeemed at par, at Bancorp's option, on any interest payment date. The obligations of Bancorp with respect to the Trust's preferred securities constitute a full and unconditional guarantee by Bancorp of Trust's obligations with respect to the trust preferred securities to the extent set forth in the related guarantee. Subject to certain exceptions and limitations, Bancorp may elect from time to time to defer interest payments on the junior subordinated debentures, resulting in a deferral of distribution payments on the related trust preferred securities. If the Company defers interest payments on the junior subordinated debentures, or otherwise is in default of the obligations, the Company would be prohibited from making dividend payments to its shareholders.

The trust preferred securities may currently be included in Tier 1 capital for regulatory capital adequacy purposes up to 25% of Tier 1 capital, net of goodwill after its inclusion. The portion of the trust preferred securities not qualifying as Tier 1 capital may currently be included as part of total qualifying capital in Tier 2 capital, subject to limitation.

Note 9. Leasing Arrangements:

The Company leases branch and administrative office facilities under noncancellable operating lease arrangements whose maturity dates extend to May 2020. These leases contain options, which enable the Company to renew the leases at fair rental value for periods of 5 to 10 years. In addition to minimum rentals, certain leases have escalation clauses based upon various price indices and include provisions for additional payments to cover taxes, insurance and maintenance. See Note 16 for a

Note 9. Leasing Arrangements: (Continued)

discussion of the terms of a lease agreement with related parties. The total minimum rental commitment, including renewal periods, under these leases at December 31, 2012 is outlined below:

(dollars in thousands) Years ending December 31	Total
2013	$ 347
2014	353
2015	358
2016	229
2017	80
Later years	203
	$1,570

Rent expense included in occupancy and equipment expenses amounted to $397 thousand in 2012 and $376 thousand in 2011.

Note 10. Employee Benefit Plans:

401(k) profit sharing plan:

The Company has a Section 401(k) profit sharing plan covering employees meeting certain eligibility requirements as to minimum age and years of service. Employees may make voluntary contributions to the Plan through payroll deductions on a pre-tax basis. The Company has the discretion to make matching contributions of 100% of the employee's contributions up to 4% of the employee's salary. In 2012 and 2011, the Company made matching contributions of 100%. A participant's account under the Plan, together with investment earnings thereon, is normally distributable, following retirement, death, disability or other termination of employment, in a single lump-sum payment.

The Company expensed contributions to the Plan in the amounts of $126 thousand in 2012 and $124 thousand in 2011.

Deferred compensation plan:

On January 28, 2002, the Board of Directors of the Bank approved the Frederick County Bank Executive and Director Deferred Compensation Plan (the "Plan"). The Plan was effective January 1, 2002 for certain executive employees and directors of the Bank. The purpose of the Plan is to (1) allow participants an opportunity to elect to defer the receipt of compensation ("Participant Compensation Deferral"), and (2) provide a vehicle for the Bank to credit amounts on a tax deferred basis for employee participants ("Employer Contribution Credit"). The Employer Contribution Credits are subject to various vesting restrictions and are available solely to Plan participants who are employees of the Bank. The Plan is intended to be a "top hat" plan under various provisions of the Employee Retirement Income Security Act of 1974, as amended.

Each Plan participant's account will be adjusted for credited interest or increases or decreases in the realizable net asset value, as applicable, of the designated deemed Plan investments. Benefit payments under the Plan, which in the aggregate equal the participant's vested account balance, will be

Note 10. Employee Benefit Plans: (Continued)

paid in a lump sum or in five or ten substantially equal, annual installments, commencing on the date or dates selected by the Plan's participants.

No amounts have been deferred or were expensed under this Plan in the accompanying consolidated statements of income for 2012 or 2011.

Stock-based compensation plans:

The Company's 2001 Stock Option Plan ("2001 Plan") and 2011 Stock Incentive Plan ("2011 Plan") provide that 260,000 shares and 250,000 shares, respectively, of the Company's common stock will be reserved for the award of incentive stock options ("ISO") and non-incentive stock options ("NQSO") to purchase shares of common stock, and under the 2011 Plan, shares of restricted stock and restricted stock units. At December 31, 2012, there are 200,000 shares remaining that are reserved for future grants under the 2011 Plan, but no shares remaining under the 2001 Plan. The exercise price per share shall not be less than the fair market value of a share of common stock on the date on which such options were granted, subject to adjustments for the effects of any stock splits or stock dividends, and may be exercised not later than ten years after the grant date.

The following is a summary of transactions in the 2001 and 2011 Plans during the years ended December 31, 2012 and 2011.

	Options Issued And Outstanding	Weighted-Average Exercise Price
Balance at December 31, 2010	235,430	$10.69
Exercised	67,800	10.02
Terminated	47,130	10.00
Granted	—	—
Balance at December 31, 2011	120,500	$11.34
Granted	50,000	11.10
Exercised	2,910	11.35
Terminated	14,750	11.35
Balance at December 31, 2012	152,840	$11.26
Exercisable at December 31, 2012	117,840	$11.30

As noted in the table above, there were 50,000 options granted in 2012, but no options granted in 2011. The Company recognizes the cost of employee services received in exchange for an award of equity investment based on the grant-date fair value of the award. That cost will be recognized over the vesting period of the award. Stock-based compensation expense related to stock options for the years ended December 31, 2012 and 2011 was $107 thousand and $109 thousand. As of December 31, 2012, there was $46 thousand of total unrecognized compensation cost related to non-vested stock options that will be expensed over the period ending in April 2014.

The weighted-average fair value of options granted in the year ended December 31, 2012 was $2.64 and was estimated at the date of grant, which was in April 2012, using the Black-Scholes Option

Note 10. Employee Benefit Plans: (Continued)

Pricing Model with the following weighted-average assumptions. There were no options granted in 2011.

December 31,	2012
Risk free interest rate of return	0.89%
Expected option life (months)	60
Expected volatility	25%
Expected dividends	—%

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected lives are based on the "simplified" method allowed by ASC Topic 718 *Compensation*, whereby the expected term is equal to the midpoint between the vesting date and the end of the contractual term of the award. The expected volatility is based on the Company's estimated level of volatility. The dividend yield assumption is based on the Company's expectation of dividend payouts.

The 152,840 and 120,500 options outstanding as of December 31, 2012 and 2011, respectively, have an aggregate intrinsic value, which is the amount that the market value of the underlying stock exceeds the exercise price of the option, of $438 thousand and $1 thousand, respectively. The aggregate intrinsic value of the options exercised in 2012 and 2011 amounted to $0 and $145 thousand, respectively.

At December 31, 2012 and 2011, the 152,840 and 120,500 options issued and outstanding, respectively, had exercise prices and weighted-average remaining contractual lives as follows:

December 31,	2012	2011
Exercisable options:		
Options outstanding	117,840	73,180
Weighted-average exercise price	$ 11.30	$ 11.33
Weighted-average remaining contractual life (months)	92	99
Unexercisable options:		
Options outstanding	35,000	47,320
Weighted-average exercise price	$ 11.10	$ 11.35
Weighted-average remaining contractual life (months)	113	99

Note 11. Income Taxes:

Significant components of the Company's deferred tax assets and liabilities at December 31, 2012 and 2011 were as follows:

(dollars in thousands)	2012	2011
Deferred tax assets:		
Allowance for loan losses	$ 993	$ 932
Stock-based compensation	67	61
Nonaccrual interest	112	36
Reserve for foreclosed properties	300	56
Alternative minimum tax carryover	—	60
Other	53	9
Total deferred tax assets	1,525	1,154
Deferred tax liabilities:		
Unrealized gain on securities available-for-sale	(305)	(523)
Depreciation	(93)	(41)
Total deferred tax liabilities	(398)	(564)
Net deferred tax assets	$1,127	$ 590

A reconciliation of the statutory income tax to the provision for income taxes included in the consolidated statements of income for the years ended December 31, 2012 and 2011 is as follows:

(dollars in thousands)	2012	2011
Income before income tax	$1,919	$1,340
Tax rate	34%	34%
Income tax at statutory rate	652	456
Increases (decreases) in tax resulting from:		
Tax exempt interest income	(267)	(271)
State income taxes, net of federal income tax benefit	99	82
Stock-based compensation	40	21
Other	—	28
Provision for income taxes	$ 524	$ 316

Note 11. Income Taxes: (Continued)

Significant components of the provision for income taxes for the years ended December 31, 2012 and 2011 are as follows:

(dollars in thousands)	2012	2011
Taxes currently payable:		
Federal	$ 544	$ 75
State	219	61
	763	136
Deferred tax (benefit) expense:		
Federal	(160)	116
State	(79)	64
	(239)	180
Total	$ 524	$316

Note 12. Noninterest Expenses:

Noninterest expenses included in the consolidated statements of income for the years ended December 31, 2012 and 2011 include the following:

(dollars in thousands)	2012	2011
Salaries	$4,238	$4,152
Stock-based compensation	108	109
Bonus	30	—
Deferred personnel costs	(135)	(106)
Payroll taxes	319	297
Employee insurance	335	328
Other employee benefits	176	169
Depreciation	373	277
Rent	397	376
Utilities	108	113
Repairs and maintenance	238	232
ATM expenses	109	104
Other occupancy and equipment expenses	187	166
Postage and supplies	68	76
Data processing	459	400
Advertising and promotion	479	282
Provision for foreclosed properties	716	124
FDIC insurance	238	307
Legal	44	45
Insurance	63	62
Consulting	65	35
Courier	15	16
Audit fees	205	192
Other	768	761
	$9,603	$8,517

Note 13. Shareholders' Equity:

Restrictions on dividends:

The amount of dividends that the Bank can pay to Bancorp without approval from the Federal Reserve Board is limited to its net profits for the current year plus its retained net profits for the preceding two years. Under Maryland law, dividends may be paid without approval from the Department of Financial Regulation only out of undivided profits. At December 31, 2012, the Bank was limited from paying dividends to Bancorp in excess of $4.02 million, and by the requirement to meet certain capital ratios. The Bank paid $320 thousand and $150 thousand in dividends to Bancorp in 2012 and 2011.

Under Maryland law, Bancorp may pay dividends only out of retained earnings. State and federal bank regulatory agencies have authority to prohibit a bank from paying dividends if such payment is deemed to be an unsafe or unsound practice, and the Federal Reserve Board has the same authority over bank holding companies.

The Federal Reserve Board has established guidelines with respect to the maintenance of appropriate levels of capital by registered bank holding companies. Compliance with such standards, as presently in effect, or as they may be amended from time to time, could possibly limit the amount of dividends that the Company may pay in the future. In 1985, the Federal Reserve Board issued a policy statement on the payment of cash dividends by bank holding companies. In the statement, the Federal Reserve Board expressed its view that a holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income, or which could only be funded in ways that weaken the holding company's financial health, such as by borrowing.

Restrictions on lending from subsidiary to parent:

Federal law imposes certain restrictions limiting the ability of the Bank to transfer funds to Bancorp in the forms of loans or advances. Section 23A of the Federal Reserve Act prohibits the Bank from making loans or advances to Bancorp in excess of 10 percent of its capital stock and surplus, as defined therein. There were no loans or advances outstanding at December 31, 2012 and 2011.

Capital:

The Bank is, and when the Company's assets exceed $500 million, it has public debt or it engages in certain highly leveraged activities, the Company will be, 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—actions 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 Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the

Note 13. Shareholders' Equity: (Continued)

regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). Management believes that the Company and the Bank met all capital adequacy requirements to which they are subject as of December 31, 2012 and 2011.

As of December 31, 2012, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification which management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios at December 31, 2012 and 2011 are presented in the following tables:

December 31, 2012 (dollars in thousands)	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets):						
Company	$35,037	13.50%	$20,766	8.00%	N/A	N/A
Bank	$34,424	13.39%	$20,568	8.00%	$25,710	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Company	$31,788	12.25%	$10,383	4.00%	N/A	N/A
Bank	$31,206	12.14%	$10,284	4.00%	$15,426	6.00%
Tier 1 Capital (to Average Assets):						
Company	$31,788	10.09%	$12,606	4.00%	N/A	N/A
Bank	$31,206	9.98%	$12,513	4.00%	$15,642	5.00%

December 31, 2011 (dollars in thousands)	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets):						
Company	$33,676	13.94%	$19,323	8.00%	N/A	N/A
Bank	$32,882	13.79%	$19,083	8.00%	$23,853	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Company	$30,654	12.69%	$ 9,662	4.00%	N/A	N/A
Bank	$29,897	12.53%	$ 9,541	4.00%	$14,312	6.00%
Tier 1 Capital (to Average Assets):						
Company	$30,654	10.51%	$11,671	4.00%	N/A	N/A
Bank	$29,897	10.35%	$11,559	4.00%	$14,449	5.00%

Note 14. Fair Value Measurements:

ASC Topic 825 *Financial Instruments* permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes must be recorded in earnings.

ASC Topic 820 *Fair Value Measurements and Disclosures* clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

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

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

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

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

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

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

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

Note 14. Fair Value Measurements: (Continued)

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

The following tables set forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a recurring basis as of December 31, 2012 and 2011.

December 31, 2012 (dollars in thousands)	Carrying Value (Fair Value)	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:				
State and political subdivisions	$ 9,921	$—	$ 9,921	$—
Small business administration	1,847	—	1,847	—
Residential mortgage backed debt	22,720	—	22,720	—
Equity securities	300	—	300	—
Total	$34,788	$—	$34,788	$—

December 31, 2011 (dollars in thousands)	Carrying Value (Fair Value)	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:				
State and political subdivisions	$13,666	$—	$13,666	$—
Small business administration	924	—	924	—
Residential mortgage backed debt	21,533	—	21,533	—
Equity securities	300	—	300	—
Total	$36,423	$—	$36,423	$—

Note 14. Fair Value Measurements: (Continued)

The following tables set forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis as of December 31, 2012 and 2011.

December 31, 2012 (dollars in thousands)	Carrying Value (Fair Value)	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Construction and land development	$ 2,141	$—	$—	$ 2,141
Commercial real estate	8,065	—	—	8,065
Residential real estate	1,759	—	—	1,759
Commercial and industrial	1,259	—	—	1,259
Consumer	52	—	—	52
Total impaired loans	$13,276	$—	$—	$13,276
Foreclosed properties:				
Commercial real estate	$ 2,048	$—	$—	$ 2,048
Total foreclosed properties	$ 2,048	$—	$—	$ 2,048

As of December 31, 2011 (dollars in thousands)	Carrying Value (Fair Value)	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Construction and land development	$ 4,181	$—	$—	$ 4,181
Commercial real estate mortgage	9,825	—	—	9,825
Residential real estate mortgage	2,095	—	—	2,095
Commercial and industrial	5,194	—	—	5,194
Consumer	17	—	—	17
Total impaired loans	$21,312	$—	$—	$21,312
Foreclosed properties:				
Commercial real estate mortgage	$ 3,095	$—	$—	$ 3,095
Residential real estate mortgage	396	$—	$—	396
Total foreclosed properties	$ 3,491	$—	$—	$ 3,491

Note 15. Fair Value of Financial Instruments:

In accordance with the disclosure requirements of ASC Topic 825 *Financial Instruments*, the estimated fair values of the Company's financial instruments are as follows:

			Fair Value Measurements		
(dollars in thousands) December 31, 2012	Carrying Amount	Fair Value	Quoted Prices (Level1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
FINANCIAL ASSETS					
Cash and cash equivalents	$ 32,551	$ 32,551	$32,551	$ —	$ —
Investment securities available for sale	34,788	34,788	—	34,788	—
Restricted stock	1,504	1,504	—	1,504	—
Net loans	225,717	241,739	—	—	241,739
FINANCIAL LIABILITIES					
Deposits	$268,113	$278,563	—	—	$278,563
Short-term borrowings	2,700	2,700	—	—	2,700
Long-term borrowings	10,000	10,740	—	—	10,740
Junior subordinated debentures	6,186	6,186	—	—	6,186
December 31, 2011					
FINANCIAL ASSETS					
Cash and cash equivalents	$ 26,848	$ 26,848	$26,848	$ —	$ —
Investment securities available for sale	36,423	36,423	—	36,423	—
Restricted stock	1,510	1,510	—	1,510	—
Net loans	209,099	206,182	—	—	206,182
FINANCIAL LIABILITIES					
Deposits	$246,487	$258,232	—	—	$258,232
Short-term borrowings	2,700	2,700	—	—	2,700
Long-term borrowings	10,000	10,788	—	—	10,788
Junior subordinated debentures	6,186	6,186	—	—	6,186

The following methods and assumptions were used to estimate the fair value disclosures for financial instruments as of December 31, 2012 and 2011:

Cash and cash equivalents:

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

Investment securities and restricted stock:

Fair values are based on quoted market prices, except for certain restricted stocks where fair value equals par value because of certain redemption restrictions.

Note 15. Fair Value of Financial Instruments: (Continued)

Loans:

Fair values are estimated for portfolios of loans with similar financial characteristics. Each portfolio is further segmented into fixed and adjustable rate interest terms by performing and non-performing categories.

The fair value of performing loans is calculated by discounting estimated cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The estimated cash flows do not anticipate prepayments.

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

Deposits:

The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Short-term borrowings:

The fair value of short-term borrowings is determined using rates currently available to the Company for debt with similar terms and remaining maturities.

Long-term borrowings:

The fair value of the long-term borrowings is determined using rates currently available to the Company for debt with similar terms and remaining maturities.

Junior subordinated debentures:

The junior subordinated debentures are unsecured obligations of the Company and are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. The Company has entered into a guarantee, which together with its obligations under the junior subordinated debentures and the declaration of trust governing the Trust provides a full and unconditional guarantee of the Trust's preferred securities. The fair value of junior subordinated debentures is determined using rates currently available to the Company for debt with similar terms and remaining maturities. See Note 8 for additional disclosures.

Accrued interest:

The carrying amounts of accrued interest approximate fair value.

Note 16. Transactions with Related Parties:

Loans:

In the normal course of banking business, loans are made to officers and directors of the Company, as well as to their affiliates. Such loans are made in the ordinary course of business with substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. They do not involve more than normal risk of collectability or present other unfavorable features. An analysis of the activity during 2012 and 2011 is as follows:

(dollars in thousands)	
Balance, December 31, 2010	$2,740
New loans	912
Repayments	(210)
Balance, December 31, 2011	3,442
New loans	5,166
Repayments	(521)
Balance, December 31, 2012	$8,087

Included in the new loans for 2012 are loans that pertain to the addition of two (2) new directors with outstanding loans in the aggregate of $4.45 million when they were added to the board of directors.

Lease agreement:

The Company entered into a new lease in July 2011 for approximately 10,521 square feet of office space owned by a limited liability company consisting of three shareholders/directors. The lease term commenced on July 11, 2011 and will expire on July 10, 2016. Under this lease, monthly payments for the period July 11, 2011 to July 10, 2012 were $14,583 and July 11, 2012 to July 10, 2013 are $14,583.

Note 17. Commitments and Contingencies:

Financial instruments:

In the normal course of business, there are outstanding commitments, contingent liabilities and other financial instruments that are not reflected in the accompanying consolidated financial statements. These include commitments to extend credit and standby letters of credit, which are some of the instruments used by the Company to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instrument for these commitments is represented by the contractual amounts of those

Note 17. Commitments and Contingencies: (Continued)

instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. These commitments as of December 31, 2012 and 2011 were as follows:

	2012	2011
(dollars in thousands)	Contractual Amount	Contractual Amount
Financial instruments whose notional or contract amounts represent credit risk:		
Commitments to extend credit	$32,974	$29,710
Standby letters of credit	2,206	2,202
Total	$35,180	$31,912

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Certain commitments have fixed expiration dates, or other termination clauses, and may require payment of a fee. Many of the commitments are expected to expire without being drawn upon; accordingly, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include deposits held in financial institutions; U.S. Treasury securities; other marketable securities; accounts receivable; inventory; property and equipment; personal residences; income-producing commercial properties and land under development. Personal guarantees are also obtained to provide added security for certain commitments.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to guarantee the installation of real property improvements and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral and obtains personal guarantees supporting those commitments for which collateral or other security is deemed necessary.

Note 18. Frederick County Bancorp, Inc. (Parent Company) Condensed Financial Information:

Balance Sheets

(dollars in thousands)	Years Ended December 31, 2012	2011
Assets		
Cash	$ 498	$ 775
Receivable from subsidiaries	86	6
Investment securities available-for-sale at fair value	300	300
Investment in banking subsidiary	31,674	30,700
Investment in other subsidiaries	2,651	2,740
Other assets	168	250
Total assets	$35,377	$34,771
Liabilities and Shareholders' Equity		
Payable to subsidiaries	$ 139	$ 404
Short-term borrowings	2,700	2,700
Junior subordinated debentures	6,186	6,186
Other liabilities	96	24
Total liabilities	9,121	9,314
Common stock	15	15
Additional paid-in capital	15,663	15,621
Retained earnings	10,110	9,018
Accumulated other comprehensive income	468	803
Total shareholders' equity	26,256	25,457
Total liabilities and shareholders' equity	$35,377	$34,771

Note 18. Frederick County Bancorp, Inc. (Parent Company) Condensed Financial Information: (Continued)

Statements of Income

(dollars in thousands)	Years Ended December 31	
	2012	2011
Dividend income from subsidiary bank	$ 320	$ 150
Dividend income from subsidiary trust	4	12
Interest income	2	1
Total income	326	163
Expenses:		
Interest on short-term borrowings	76	65
Interest on junior subordinated debentures	132	392
Other	19	27
Total expenses	227	484
Income (loss) before provision for income taxes and equity in undistributed earnings of subsidiaries	99	(321)
Provision for income tax benefits	(75)	(160)
Income (loss) before equity in undistributed earnings of subsidiaries	174	(161)
Equity in undistributed earnings of subsidiaries	1,221	1,185
Net income	$1,395	$1,024

Note 18. Frederick County Bancorp, Inc. (Parent Company) Condensed Financial Information: (Continued)

Statements of Cash Flows

(dollars in thousands)	Years Ended December 31, 2012	2011
Cash flows from operating activities:		
Net income	$ 1,395	$ 1,024
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(1,221)	(1,185)
Excess tax benefit from stock-based awards	(6)	(44)
(Increase) decrease in receivable from subsidiaries	(80)	52
Decrease (increase) in other assets	89	(207)
(Decrease) increase in payable to subsidiaries	(265)	400
Increase in other liabilities	72	12
Net cash (used in) provided by operating activities	(16)	52
Cash flows from investing activities:		
Investment in banking subsidiary	—	(200)
Investment in other subsidiary	—	(1,974)
Net cash used in financing activities	—	(2,174)
Cash flows from financing activities:		
Proceeds from short-term borrowings	—	2,700
Repayment of short-term borrowings	—	(300)
Proceeds from issuance of common stock	33	679
Repurchase of common stock	(104)	(280)
Compensation expense from stock option transactions	107	109
Dividends paid on common stock	(303)	(148)
Excess tax benefit from stock-based awards	6	44
Net cash (used in) provided by provided by financing activities	(261)	2,804
Net (decrease) increase in cash	(277)	682
Beginning cash	775	93
Ending cash	$ 498	$ 775

BUSINESS

General

Frederick County Bancorp, Inc. (the "Bancorp"), the parent company for its wholly-owned subsidiary Frederick County Bank (the "Bank" and together with Bancorp, the "Company"), was organized in September 2003. The Bank was incorporated under the laws of the State of Maryland in August 2000 and commenced banking operations in October 2001. The Bank, headquartered in Frederick, Maryland, currently operates out of its main office and four branch offices, three in Frederick, Maryland and one in Walkersville, Maryland. The Bank was organized by successful members of the business community in Frederick, Maryland and an experienced senior management team to operate as a local business bank alternative to the superregional financial institutions, which dominate its primary market area. The primary service area of the Bank is Frederick County, Maryland, with a secondary market area in the surrounding counties of Carroll, Howard, Montgomery and Washington. The Bank's mission is to serve the needs of the business and professional community of Frederick County by building long-term relationships. The Bank seeks to focus on relationship banking, providing each customer with a number of services, familiarizing itself with, and addressing itself to, customer needs. The Bank also seeks to become an integral part of the community, a responsible citizen and make decisions based on what is good for the community.

Bancorp also has a direct subsidiary called FCBI Statutory Trust I. In addition, Bancorp has a direct subsidiary called FCB Holdings, Inc. and an indirect subsidiary, direct subsidiary of the Bank, called FCB Hagerstown, LLC, both of which are for the purpose of holding and managing problem loans and foreclosed real estate. See Note 8 to the consolidated financial statements for additional disclosures for FCBI Statutory Trust I.

Description of Services

The Bank offers full commercial banking services to its business and professional clients. The Bank primarily emphasizes providing commercial banking services to corporations, partnerships, small and medium-sized businesses and sole proprietorships, as well as to non-profit organizations and associations and investors living or working in Frederick County. The Bank also provides residential mortgage loans and a full line of retail services to accommodate the individual needs of corporate customers and residents of the community served by the Bank.

The Bank's commercial loan portfolio consists of term loans, lines of credit and owner occupied commercial real estate loans provided to primarily locally based borrowers. Traditional installment loans and personal lines of credit are available on a selective basis.

Services offered to our customers include, but are not limited to, the following:

- Commercial loans for business purposes to business owners and investors for plant and equipment, personal lines of credit, working capital, real estate renovation, and other sound business purposes;
- Commercial real estate loans on income producing properties with an emphasis on adequate debt service coverage and liquidity. Other criteria include satisfactory loan to value ratios as determined by valuations from recognized appraisers. Loans will be made primarily at variable rates, with fixed rates in the one to five year range, with maturities normally no longer than five to ten years;
- SBA guaranteed loans;
- Cash management services, including sweep accounts, repurchase agreements, account reconciliation, credit card depository, Automated Clearing House origination, wire transfers, night depository;

- Merchant credit card services for the deposit and immediate credit of sales drafts from retail merchants and professionals such as doctors and attorneys;
- Commercial depository services including interest bearing sweep accounts;
- Business checking accounts, and payroll service through outside payroll processors;
- Other commercial services based on the individual needs of the customer including direct data services, reconciliation of accounts, night depository, safe deposit boxes, and business services;
- On-line data communication with Bank customers;
- ATM services;
- Equity loans on real estate, home improvement loans, and overdraft checking privileges against preauthorized lines of credit;
- Residential mortgage loans; and
- Retail depository services including personal checking accounts, NOW accounts, regular savings accounts, money market savings accounts, certificates of deposit, and IRA accounts.

The Bank also provides courier services for deposits and other banking services, to better serve customers who are not conveniently located near the Bank's offices.

The direct lending activities in which the Bank engages each carries the risk that the borrowers will be unable to perform on their obligations. As such, interest rate policies of the Federal Reserve Board and general economic conditions, nationally and in the Bank's primary market area have a significant impact on the Bank and the Bank's results of operations. To the extent that economic conditions deteriorate, business and individual borrowers may be less able to meet their obligations to the Bank in full, in a timely manner, resulting in decreased earnings or losses to the Bank. To the extent that loans are secured by real estate, adverse conditions in the real estate market may reduce the borrower's ability to generate the necessary cash flow for repayment of the loan, and reduce the Bank's ability to collect the full amount of the loan upon a default. To the extent the Bank makes fixed rate loans, general increases in interest rates will tend to reduce the Bank's spread as the interest rates the Bank must pay for deposits increase while interest income is flat. Economic conditions and interest rates may also adversely affect the value of property pledged as security for loans.

Whenever appropriate and available, the Bank seeks Federal and State loan guarantees, such as the Small Business Administration's "7A" and "504" loan programs to reduce risks. The Bank generally requires personal guarantees on all loans; approval of exceptions to this policy is documented. All borrowers are required to forward annual corporate, partnership and personal financial statements to comply with bank policy and enforced through the loan covenants documentation for each transaction. Interest rate risks to the Bank are mitigated by using either floating interest rates, which would include floors on commercial loans, or by fixing rates for a short period of time.

Consistent with the objective of the Bank to serve the needs of the business community, the Bank seeks to concentrate its assets in commercial loans and commercial real estate loans. To be consistent with the requirements of prudent banking practices, the Bank maintains a portfolio of high-grade securities to provide liquidity, principal security and additional interest income.

The risk of nonpayment (or deferred payment) of loans is inherent in commercial banking. The Bank's marketing focus on small to medium-sized businesses may result in the assumption by the Bank of certain lending risks that are different from those attendant to loans to larger companies. Management of the Bank carefully evaluates all loan applications and attempts to minimize its credit risk exposure by use of thorough loan application, approval and monitoring procedures; however, there can be no assurance that such procedures can significantly reduce such lending risks.

Source of Business. Management believes that the market segments targeted, small to medium sized businesses and professionals in the Bank's market area, demand the convenience and personal service that a smaller, independent financial institution can offer. It is these themes of convenience and personal service that form the basis of the Bank's business development strategies. The Bank provides services from its centrally located main office in Frederick, Maryland, one branch on each of the north, south and east sides of Frederick, Maryland, along with its branch in Walkersville, Maryland, which it believes complement the needs of the Bank's existing and potential customers, and provide prospects for additional growth and expansion. The Bank has implemented a courier service to better serve local customers who are not conveniently located near one of the Bank's offices. The Bank is continuously looking for opportunities to establish additional branches in different parts of its market area, which would enhance customer service for existing customers, enable the Bank to obtain additional customers, expand the Bank's market area, and which could be operated on a profitable basis. Although the Bank is open to additional branches, there can be no assurance that the Bank will establish any additional branches in any given timeframe, or that they will be profitable.

The Bank seeks to capitalize upon the extensive business and personal contacts and relationships of its Directors and Executive Officers to develop the Bank's customer base, as well as relying on Director referrals, officer-originated calling programs and customer and shareholder referrals.

Market Area and Competition

Location and Market Area. The headquarters for Bancorp and the Bank is located at 9 North Market Street, Frederick, Maryland 21701, in downtown Frederick. The Bank's main banking office is located at 30 West Patrick Street, Frederick, Maryland and has three branches located in Frederick, Maryland, at 198 Thomas Johnson Drive, 6910 Crestwood Boulevard and 490 Monocacy Boulevard, which opened on January 11, 2012. The fourth branch is located in Walkersville, Maryland at 200 Commerce Drive. The primary service area of the Bank is Frederick County, Maryland, with a secondary market area in the surrounding counties of Carroll, Howard, Montgomery and Washington. Frederick County and the City of Frederick have experienced significant consolidation in the banking market over the past ten years. The Bank is one of two commercial banks based in Frederick County that have been organized since 1989, both of which have their headquarters in the City of Frederick. The Bank believes that market and banking trends provide an opportunity for the Bank to execute a focused strategy of offering personal and customized services and attract underserved and dissatisfied small business clients.

Frederick County, located in central Maryland, had a 2010 population of approximately 233,385. The population of Frederick County is anticipated to continue to grow, to approximately 240,406 in 2015 and 254,589 in 2020. The City of Frederick has experienced similar population growth, resulting in a 2010 population of approximately 65,239.

The County currently has approximately 119,923 employed residents and 91,000 in-county jobs. Raw employment figures in Frederick County do not reflect the significant intercounty commuter traffic between Frederick and surrounding counties. A significant portion of Frederick residents work in other jurisdictions, and a substantial number of Frederick County jobs are held by nonresidents. The economy of Frederick County is highly diversified.

According to the State of Maryland, Department of Labor, Licensing and Regulation for 2011, employment is distributed among the following categories:

Sector	Percent Of Jobs
Construction	8.7%
Manufacturing	5.2%
Trade, Transportation and Utilities	16.7%
Financial Activities	6.9%
Services (includes business, health, hospitality and education)	45.1%
Government	17.4%

Competition. Deregulation of financial institutions and holding company acquisitions of banks across state lines has resulted in widespread, fundamental changes in the financial services industry. This transformation, although occurring nationwide, is particularly intense in Frederick County, and the nearby Washington, DC and Baltimore metropolitan areas, because of the changes in the area's economic base in recent years and changing federal and state laws authorizing interstate mergers and acquisitions of banks, and the interstate establishment or acquisition of branches.

In Frederick County, Maryland, competition is exceptionally keen from large banking institutions headquartered outside of Maryland. In addition, the Bank competes with other community banks, savings and loan associations, credit unions, mortgage companies, finance companies, the online divisions of out of market institutions, and others providing financial services. Among the advantages that many of these institutions have over the Bank are their abilities to finance extensive advertising campaigns, maintain extensive branch networks and technology investments, and to directly offer certain services, such as international banking and trust services, which will not be offered directly by the Bank. Further, the greater capitalization of the larger institutions allows for substantially higher lending limits than the Bank. Certain of these competitors have other advantages, such as tax exemption in the case of credit unions, and lesser regulation in the case of mortgage companies and finance companies.

The Gramm-Leach-Bliley Act (the "GLB Act") created a new type of regulated entity, the financial holding company that can offer a broad range of financial products. These new financial holding companies are able to affiliate with and engage in banking, securities, insurance and other financial activities not permitted under prior law. The GLB Act also permits banks with or without holding companies to establish and operate financial subsidiaries that may engage in most financial activities in which financial holding companies may engage. Large bank holding companies and other large financial service companies in particular will be able to take advantage of the new activities and provide a wider array of products than may be possible for smaller institutions such as the Bank.

Employees

At February 1, 2013, the Company employed sixty-five (65) persons on a full-time basis, two (2) of which are executive officers, and six (6) persons on a part-time basis. None of the Company's employees are represented by any collective bargaining group, and the Company believes that its employee relations are good. The Company provides a benefit program, which includes health and dental insurance, a 401(k) plan, life and long-term disability insurance for substantially all full time employees and an equity based compensation plan for key employees and directors of the Company, pursuant to which stock options, restricted stock and restricted stock units may be awarded.

Properties

The main office of the Bank is located at 30 West Patrick Street, Frederick, in 3,575 square feet on the ground floor of a seven (7)-story office building, comprised of 65,477 square feet. The Company

leases the space under a five (5)-year lease, which expires in July 2016, at a current annual rent of $100,414; subject to annual increases of 3% per year, plus additional rent relating to common area fees and taxes.

The Antietam branch is located at 198 Thomas Johnson Drive, Frederick, Maryland and consists of 3,168 square feet in a 75,000 square foot building. The property is occupied under a three (3)-year lease, which expires in May 2015, at a current annual rent of $69,696; plus additional rent relating to common area fees and taxes. The Company has one (1) five (5)-year renewal option.

The Company leases approximately 10,521 square feet of office space located at 1-11 North Market Street, Frederick, Maryland, which it uses as the headquarters location for the Bancorp and the Bank, as well as, an operations center and administrative offices, in a building owned by a limited liability company owned by three shareholders/directors. The lease term will expire in July 2016. Pursuant to this lease, the current annual payments are $175,000 per year. The Company has three (3) five (5)-year renewal options.

The Company owns the premises for its branches located at 490 Monocacy Boulevard and 6910 Crestwood Boulevard, Frederick Maryland and 200 Commerce Drive, Walkersville, Maryland.

The Company also owns 1.775 acres of vacant land at 8401 Progress Court in Frederick, Maryland which may be used for future expansion.

The Company believes that its existing facilities outlined above are adequate to conduct the Company's business.

Legal Proceedings

From time to time the Company is a participant in various legal proceedings incidental to its business. In the opinion of management, the liabilities (if any) resulting from such legal proceedings will not have a material effect on the financial position of the Company.

Supervision and Regulation

Bancorp is registered as a bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (the "Holding Company Act") and, as such, is subject to supervision and regulation by the Federal Reserve. As a bank holding company, Bancorp is required to furnish to the Federal Reserve annual and semi-annual reports of its operations and additional information and reports. Bancorp is also subject to regular examination by the Federal Reserve.

Under the Holding Company Act, a bank holding company must obtain the prior approval of the Federal Reserve before (1) acquiring direct or indirect ownership or control of any class of voting securities of any bank or bank holding company if, after the acquisition, the bank holding company would directly or indirectly own or control more than 5% of the class; (2) acquiring all or substantially all of the assets of another bank or bank holding company; or (3) merging or consolidating with another bank holding company.

Under the Holding Company Act, any company must obtain approval of the Federal Reserve prior to acquiring control of Bancorp or the Bank. For purposes of the Holding Company Act, "control" is defined as ownership of 25% or more of any class of voting securities of Bancorp or the Bank, the ability to control the election of a majority of the directors, or the exercise of a controlling influence over management or policies of Bancorp or the Bank.

The Change in Bank Control Act and the related regulations of the Federal Reserve require any person or persons acting in concert (except for companies required to make application under the Holding Company Act), to file a written notice with the Federal Reserve before the person or persons acquire control of Bancorp or the Bank. The Change in Bank Control Act defines "control" as the

direct or indirect power to vote 25% or more of any class of voting securities or to direct the management or policies of a bank holding company or an insured bank. A presumption of control arises under the Change in Bank Control Act where a person controls 10% or more of a class of the voting stock of a company or insured bank which is a reporting company under the Securities Exchange Act of 1934, such as the Company.

The Holding Company Act also limits the investments and activities of bank holding companies. In general, a bank holding company is prohibited from acquiring direct or indirect ownership or control of more than 5% of the voting shares of a company that is not a bank or a bank holding company or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, providing services for its subsidiaries, non-bank activities that are closely related to banking, and other financially related activities. The activities of Bancorp are subject to these legal and regulatory limitations under the Holding Company Act and Federal Reserve regulations.

In addition to being a bank holding company, Bancorp has also been designated a financial holding company, and as such, under federal banking law, may engage in an expanded list of non-bank activities. Non-bank and financially related activities of bank holding companies and financial holding companies, also may be subject to regulation and oversight by regulators other than the Federal Reserve. As of December 31, 2012, the Company was not conducting any activity for which the financial holding company designation is a prerequisite.

The Federal Reserve has the power to order a holding company or its subsidiaries to terminate any activity, or to terminate its ownership or control of any subsidiary, when it has reasonable cause to believe that the continuation of such activity or such ownership or control constitutes a serious risk to the financial safety, soundness, or stability of any bank subsidiary of that holding company.

The Federal Reserve has the power to prohibit dividends by bank holding companies if their actions constitute unsafe or unsound practices. The Federal Reserve has issued a policy statement and supervisory guidance on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve's view that a bank holding company should pay cash dividends only to the extent that the company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the company's capital needs, asset quality, and overall financial condition.

The Bank, as a Maryland chartered commercial bank which is a member of the Federal Reserve System (a "state member bank") and whose accounts are insured by the Deposit Insurance Fund of the FDIC up to the maximum legal limits of the FDIC, is subject to regulation, supervision and regular examination by the Maryland Department of Financial Regulation and the Federal Reserve Board. The regulations of these various agencies govern most aspects of the Bank's business, including required reserves against deposits, loans, investments, mergers and acquisitions, borrowing, dividends and location and number of branch offices. The laws and regulations governing the Bank generally have been promulgated to protect depositors and the Deposit Insurance Fund, and not for the purpose of protecting shareholders.

Competition among commercial banks, savings and loan associations, and credit unions has increased following enactment of legislation, which greatly expanded the ability of banks and bank holding companies to engage in interstate banking or acquisition activities. As a result of federal and state legislation, banks in the Washington, DC/Maryland/Virginia area can, subject to limited restrictions, acquire or merge with a bank in another of the jurisdictions, and can branch *de novo* in any of the jurisdictions. The GLB Act allows a wider array of companies to own banks, which could result in companies with resources substantially in excess of the Bank's entering into competition with the Bank.

Banking is a business which depends on interest rate differentials. In general, the differences between the interest paid by a bank on its deposits and its other borrowings and the interest received by a bank on loans extended to its customers and securities held in its investment portfolio constitute the major portion of the Bank's earnings. Thus, the earnings and growth of the Bank are subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly, as it relates to monetary policy, the Federal Reserve Board, which regulates the supply of money through various means including open market dealings in United States government securities. The nature and timing of changes in such policies and their impact on the Bank cannot be predicted.

Branching and Interstate Banking. The federal banking agencies are authorized to approve interstate bank merger transactions without regard to whether such transaction is prohibited by the law of any state, unless the home state of one of the banks has opted out of the interstate bank merger provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act") by adopting a law after the date of enactment of the Riegle-Neal Act and prior to June 1, 1997 which applies equally to all out-of-state banks and expressly prohibits merger transactions involving out-of-state banks. Interstate acquisitions of branches are permitted only if the law of the state in which the branch is located permits such acquisitions. Such interstate bank mergers and branch acquisitions are also subject to the nationwide and statewide insured deposit concentration limitations described in the Riegle-Neal Act. The District of Columbia, Maryland and Virginia have each enacted laws which permit interstate acquisitions of banks and bank branches.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010 ("Dodd-Frank"), authorizes national and state banks to establish *de novo* branches in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Although the District of Columbia, Maryland and Virginia had all enacted laws which permitted banks in these jurisdictions to branch freely, the branching provisions of Dodd-Frank could result in banks from a wider variety of states establishing *de novo* branches in the Bank's market area.

USA Patriot Act. Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act, commonly referred to as the "USA Patriot Act" or the "Patriot Act", financial institutions are subject to prohibitions against specified financial transactions and account relationships, as well as enhanced due diligence standards intended to detect, and prevent, the use of the United States financial system for money laundering and terrorist financing activities. The Patriot Act requires financial institutions, including banks, to establish anti-money laundering programs, including employee training and independent audit requirements, meet minimum standards specified by the act, follow minimum standards for customer identification and maintenance of customer identification records, and regularly compare customer lists against lists of suspected terrorists, terrorist organizations and money launderers. The costs or other effects of the compliance burdens imposed by the Patriot Act or future anti-terrorist, homeland security or anti-money laundering legislation or regulations cannot be predicted with certainty.

Capital Adequacy Guidelines. The Federal Reserve Board and the FDIC have adopted risk based capital adequacy guidelines pursuant to which they assess the adequacy of capital in examining and supervising banks and bank holding companies and in analyzing bank regulatory applications. Risk-based capital requirements determine the adequacy of capital based on the risk inherent in various classes of assets and off-balance sheet items. The risk based capital guidelines will not be applicable to the Company until it has in excess of $500 million in assets, it has public debt or it engages in certain highly leveraged activities. Under Dodd-Frank, the Federal Reserve Board is required to apply consolidated capital requirements to depository institution holding companies that are

no less stringent than those currently applied to depository institutions. Under these standards, subject to limited exceptions, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company with less than $15 billion in assets. Dodd-Frank additionally requires capital requirements to be countercyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness.

State member banks are expected to meet a minimum ratio of total qualifying capital (the sum of core capital (Tier 1) and supplementary capital (Tier 2)) to risk weighted assets of 8%. At least half of this amount (4%) should be in the form of core capital. Tier 1 Capital generally consists of the sum of common shareholders' equity and perpetual preferred stock (subject in the case of the latter to limitations on the kind and amount of such stock which may be included as Tier 1 Capital), less goodwill, without adjustment for changes in the market value of securities classified as "available-for-sale" in accordance with ASC Topic 320—*Investments*. Tier 2 Capital consists of the following: hybrid capital instruments; perpetual preferred stock which is not otherwise eligible to be included as Tier 1 Capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics, with the categories ranging from 0% (requiring no risk-based capital) for assets such as cash and certain U.S. government and agency securities, to 100% for the bulk of assets which are typically held by a bank, including certain multi-family residential and commercial real estate loans, commercial business loans and consumer loans. Residential first mortgage loans on one to four family residential real estate and certain seasoned multi-family residential real estate loans, which are not 90 days or more past-due or non-performing and which have been made in accordance with prudent underwriting standards are assigned a 50% level in the risk-weighing system, as are certain privately-issued mortgage-backed securities representing indirect ownership of such loans. Off-balance sheet items also are adjusted to take into account certain risk characteristics.

In addition to the risk-based capital requirements, the Federal Reserve Board has established a minimum 3.0% Leverage Capital Ratio (Tier 1 Capital to total adjusted assets) requirement for the most highly-rated banks, with an additional cushion of at least 100 to 200 basis points for all other banks, which effectively increases the minimum Leverage Capital Ratio for such other banks to 4.0% - 5.0% or more. The highest-rated banks are those that are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, those which are considered a strong banking organization. A bank having less than the minimum Leverage Capital Ratio requirement shall, within 60 days of the date as of which it fails to comply with such requirement, submit a reasonable plan describing the means and timing by which the bank shall achieve its minimum Leverage Capital Ratio requirement. A bank which fails to file such plan is deemed to be operating in an unsafe and unsound manner, and could subject the bank to a cease-and-desist order. Any insured depository institution with a Leverage Capital Ratio that is less than 2.0% is deemed to be operating in an unsafe or unsound condition pursuant to Section 8(a) of the Federal Deposit Insurance Act (the "FDIA") and is subject to potential termination of deposit insurance. The capital regulations also provide, among other things, for the issuance of a capital directive, which is a final order issued to a bank that fails to maintain minimum capital or to restore its capital to the minimum capital requirement within a specified time period. Such a directive is enforceable in the same manner as a final cease-and-desist order.

The forgoing capital requirements represent minimum requirements. Our state and federal regulators have the discretion to require us to maintain higher capital levels based upon our concentrations of loans, the risk of our lending or other activities, the performance of our loan and investment portfolios and other factors. Failure to maintain such higher capital expectations could result in a lower composite regulatory rating, which would impact our deposit insurance premiums and

could affect our ability to borrow and costs of borrowing, and could result in additional or more severe enforcement actions.

Proposed Changes in Capital Requirements. In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation (“Basel III”). Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain more capital, with a greater emphasis on common equity. Implementation was to be phased in between 2013 and 2019, but has been delayed pending further review of the proposed implementing regulations discussed below.

The Basel III final capital framework, among other things, (i) introduces as a new capital measure “Common Equity Tier 1” (“CET1”), (ii) specifies that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the adjustments as compared to existing regulations.

When fully phased in, Basel III requires banks to maintain (i) as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a “capital conservation buffer” of 2.5%; (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer; (iii) a minimum ratio of Total (Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0% plus the capital conservation buffer and (iv) as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter).

Basel III also provides for a “countercyclical capital buffer,” generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented. The capital conservation buffer is designed to absorb losses during periods of economic stress.

Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) may face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The Basel III final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2014 and will be phased-in over a five-year period (20% per year). The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The FRB, the FDIC and the OCC issued a joint Notice of Proposed Rulemaking in June 2012 (the “Basel III Notice”), which proposes to implement Basel III under regulations substantially consistent with the above. One additional proposed change from current practice proposed in the Basel III Notice, included as part of the definition of CET1 capital, would require banking institutions to generally include the amount of Additional Other Comprehensive Income (which primarily consists of unrealized gains and losses on available for sale securities which are not required to be treated as

OTTI, net of tax) in calculating regulatory capital. The Basel III Notice also proposes a 4% minimum leverage ratio.

Additionally, the FRB, the FDIC and the OCC issued a second Notice of Proposed Rulemaking in June 2012 (the "Standardized Approach Notice") which would change the manner of calculating risk weighted assets. Under this Notice, new methodologies for determining risk-weighted assets in the general capital rules are proposed, including revisions to recognition of credit risk mitigation, including a greater recognition of financial collateral and a wider range of eligible guarantors. They also include risk weighting of equity exposures and past due loans, potential changes in the weighting of residential mortgage loans depending on the risk characteristics of the loan; and higher (greater than 100%) risk weighting for certain commercial real estate exposures that have higher credit risk profiles, including higher loan to value and equity components.

The components of the Basel III framework remain subject to revision or amendment, as are the rules proposed by the U.S. regulatory agencies in the Basel III Notice and Standardized Approach Notice. Accordingly, the regulations ultimately applicable to us may be substantially different from the Basel III final framework as published in December 2010, and as proposed in the Basel III Notice and Standardized Approach Notice. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets, and changes in the manner of calculating risk weighted assets, could adversely impact our net income and return on equity.

Prompt Corrective Action. Under Section 38 of the FDIA, each federal banking agency is required to implement a system of prompt corrective action for institutions, which it regulates. The federal banking agencies have promulgated substantially similar regulations to implement the system of prompt corrective action established by Section 38 of the FDIA. Under the regulations, a bank shall be deemed to be: (i) "well capitalized" if it has a Total Risk Based Capital Ratio of 10.0% or more, a Tier 1 Risk Based Capital Ratio of 6.0% or more, a Leverage Capital Ratio of 5.0% or more and is not subject to any written capital order or directive; (ii) "adequately capitalized" if it has a Total Risk Based Capital Ratio of 8.0% or more, a Tier 1 Risk Based Capital Ratio of 4.0% or more and a Tier 1 Leverage Capital Ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of "well capitalized;" (iii) "undercapitalized" if it has a Total Risk Based Capital Ratio that is less than 8.0%, a Tier 1 Risk based Capital Ratio that is less than 4.0% or a Leverage Capital Ratio that is less than 4.0% (3.0% under certain circumstances); (iv) "significantly undercapitalized" if it has a Total Risk Based Capital Ratio that is less than 6.0%, a Tier 1 Risk Based Capital Ratio that is less than 3.0% or a Leverage Capital Ratio that is less than 3.0%; and (v) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

An institution generally must file a written capital restoration plan which meets specified requirements with an appropriate federal banking agency within 45 days of the date the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. A federal banking agency must provide the institution with written notice of approval or disapproval within 60 days after receiving a capital restoration plan, subject to extensions by the applicable agency.

An institution, which is required to submit a capital restoration plan, must concurrently submit a performance guaranty by each company that controls the institution. Such guaranty shall be limited to the lesser of (i) an amount equal to 5.0% of the institution's total assets at the time the institution was notified or deemed to have notice that it was undercapitalized or (ii) the amount necessary at such time to restore the relevant capital measures of the institution to the levels required for the institution to be classified as adequately capitalized. Such a guaranty shall expire after the federal banking agency notifies the institution that it has remained adequately capitalized for each of four consecutive calendar quarters. An institution which fails to submit a written capital restoration plan within the requisite period, including any required performance guaranty, or fails in any material respect to implement a

capital restoration plan, shall be subject to the restrictions in Section 38 of the FDIA which are applicable to significantly undercapitalized institutions.

A "critically undercapitalized institution" is required to be placed in conservatorship or receivership within 90 days unless the appropriate federal regulator, with the concurrence of the FDIC, formally determines that forbearance from such action would better protect the deposit insurance fund. Unless the FDIC or other appropriate federal banking regulatory agency makes specific further findings and certifies that the institution is viable and is not expected to fail, an institution that remains critically undercapitalized on average during the fourth calendar quarter after the date it becomes critically undercapitalized must be placed in receivership. The general rule is that the FDIC will be appointed as receiver within 90 days after a bank becomes critically undercapitalized unless extremely good cause is shown and an extension is agreed to by the federal regulators. In general, good cause is defined as capital, which has been raised and is imminently available for infusion into the bank except for certain technical requirements, which may delay the infusion for a period of time beyond the 90 day time period.

Immediately upon becoming undercapitalized, an institution shall become subject to the provisions of Section 38 of the FDIA, which (i) restrict payment of capital distributions and management fees; (ii) require that the appropriate federal banking agency monitor the condition of the institution and its efforts to restore its capital; (iii) require submission of a capital restoration plan; (iv) restrict the growth of the institution's assets; and (v) require prior approval of certain expansion proposals. The appropriate federal banking agency for an undercapitalized institution also may take any number of discretionary supervisory actions if the agency determines that any of these actions is necessary to resolve the problems of the institution at the least possible long-term cost to the deposit insurance fund, subject in certain cases to specified procedures. These discretionary supervisory actions include: requiring the institution to raise additional capital; restricting transactions with affiliates; requiring divestiture of the institution or the sale of the institution to a willing purchaser; and any other supervisory action that the agency deems appropriate. These and additional mandatory and permissive supervisory actions may be taken with respect to significantly undercapitalized and critically undercapitalized institutions.

Additionally, under Section 11(c)(5) of the FDIA, a conservator or receiver may be appointed for an institution where: (i) an institution's obligations exceed its assets; (ii) there is substantial dissipation of the institution's assets or earnings as a result of any violation of law or any unsafe or unsound practice; (iii) the institution is in an unsafe or unsound condition; (iv) there is a willful violation of a cease-and-desist order; (v) the institution is unable to pay its obligations in the ordinary course of business; (vi) losses or threatened losses deplete all or substantially all of an institution's capital, and there is no reasonable prospect of becoming "adequately capitalized" without assistance; (vii) there is any violation of law or unsafe or unsound practice or condition that is likely to cause insolvency or substantial dissipation of assets or earnings, weaken the institution's condition, or otherwise seriously prejudice the interests of depositors or the insurance fund; (viii) an institution ceases to be insured; (ix) the institution is undercapitalized and has no reasonable prospect that it will become adequately capitalized, fails to become adequately capitalized when required to do so, or fails to submit or materially implement a capital restoration plan; or (x) the institution is critically undercapitalized or otherwise has substantially insufficient capital.

Regulatory Enforcement Authority. Federal banking law grants substantial enforcement powers to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

As a result of the volatility and instability in the financial system in recent years, the Congress, the bank regulatory authorities and other government agencies have called for or proposed additional regulation and restrictions on the activities, practices and operations of banks and their holding companies. While many of these proposals relate to institutions that have accepted investments from, or sold troubled assets to, the Department of the Treasury or other government agencies, or otherwise participate in government programs intended to promote financial stabilization, the Congress and the federal banking agencies have broad authority to require all banks and holding companies to adhere to more rigorous or costly operating procedures, corporate governance procedures, or to engage in activities or practices which they would not otherwise elect. Any such requirement could adversely affect the Company's business and results of operations.

The Dodd-Frank Act. The Dodd-Frank Act makes significant changes to the current bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires a number of federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress. The federal agencies are given significant discretion in drafting these rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for some time. Although it is not possible to determine the ultimate impact of this statute until the extensive rulemaking is complete, the following provisions are considered to be of greatest significance to the Bank:

- Expands the authority of the FRB to examine bank holding companies and their subsidiaries, including insured depository institutions;
- Requires a bank holding company to be well capitalized and well managed to receive approval of an interstate bank acquisition;
- Changes standards for federal preemption of state laws related to national banks and their subsidiaries;
- Provides mortgage reform provisions regarding a customer's ability to pay and making more loans subject to provisions for higher-cost loans and new disclosures;
- Creates a new Bureau of Consumer Financial Protection that will have rulemaking authority for a wide range of consumer protection laws that would apply to all banks and would have broad powers to supervise and enforce consumer protection laws;
- Creates the Financial Stability Oversight Council with authority to identify institutions and practices that might pose a systemic risk;
- Introduces additional corporate governance and executive compensation requirements on companies subject to the 1934 Act, as amended;
- Permits FDIC-insured banks to pay interest on business demand deposits;
- Requires that holding companies and other companies that directly or indirectly control an insured depository institution to serve as a source of financial strength;
- Makes permanent the $250 thousand limit for federal deposit insurance and provides unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions; and
- permits national and state banks to establish interstate branches to the same extent as the branch host state allows establishment of in-state branches.

Consumer Financial Protection Bureau. Dodd-Frank created a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB") which is granted broad rulemaking,

supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB will have examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB will have authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. Dodd-Frank authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, Dodd-Frank will allow borrowers to raise certain defenses to foreclosure if they receive any loan, other than a "qualified mortgage" as defined by the CFPB. Dodd-Frank permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

It is difficult to predict at this time the specific impact the Dodd-Frank Act will have on our business. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require us to change certain of our business practices, limit our ability to make, or the desirability of making, certain type of loans, including non-qualified mortgage loans, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business or profitablity. The changes may also require us to dedicate significant management attention and resources to evaluate and make necessary changes to comply with the new statutory and regulatory requirements.

FDIC Insurance Premiums. The FDIC maintains a risk-based assessment system for determining deposit insurance premiums. Four risk categories (I-IV), each subject to different premium rates, are established based upon an institution's status as well capitalized, adequately capitalized or undercapitalized, and the institution's supervisory rating.

The Dodd-Frank Act permanently increased the maximum deposit insurance amount for banks, savings institutions and credit unions to $250,000 per depositor, and extended unlimited deposit insurance to non-interest bearing transaction accounts through December 31, 2012. The Dodd-Frank Act also broadened the base for FDIC insurance assessments. Assessments are now based on a financial institution's average consolidated total assets less tangible equity capital. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. The Dodd-Frank Act eliminated the statutory prohibition against the payment of interest on business checking accounts, effective in July 2011.

An insured institution is required to pay deposit insurance premiums on its assessment base in accordance with its risk category. There are three adjustments that can be made to an institution's initial base assessment rate: (1) a potential decrease for long-term unsecured debt, including senior and subordinated debt and, for small institutions, a portion of Tier 1 capital; (2) a potential increase for secured liabilities above a threshold amount; and (3) for non-Risk Category I institutions, a potential increase for brokered deposits above a threshold amount. The FDIC may also impose special assessments from time to time.

Market for Common Stock and Dividends

Market for Common Stock. Our common stock is not traded on any organized exchange, including The NASDAQ Stock Market. As of December 31, 2012, two market makers offered to make a market

in the common stock in the over the counter "bulletin board" market under the symbol "FCBI". The common stock has traded only sporadically and in limited volume. No assurance can be given that an active or established trading market will develop in the foreseeable future. The following table sets forth the high and low bid prices for the common stock, and the amount of dividends declared per share, during each calendar quarter for 2012 and 2011. These quotations reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions. These quotations do not necessarily reflect the intrinsic or market values of the common stock. As of December 31, 2012, there were 1,508,574 shares of common stock outstanding, held by approximately 629 shareholders of record.

	2012			2011		
Quarter	**High Bid**	**Low Bid**	**Dividends**	**High Bid**	**Low Bid**	**Dividends**
First	$12.50	$10.55	$0.05	$13.38	$12.10	$ —
Second	$12.50	$10.75	$0.05	$21.00	$12.80	$0.10
Third	$12.75	$10.85	$0.05	$21.00	$11.50	$ —
Fourth	$14.25	$11.20	$0.05	$13.50	$11.15	$ —

Dividends. During 2012, Bancorp paid $303 thousand in dividends to its common shareholders and the Bank paid $320 thousand in dividends to Bancorp. Regulations of the Federal Reserve Board and Maryland law place limits on the amount of dividends the Bank may pay without prior approval. Prior approval of the Federal Reserve is required to pay dividends which exceed the Bank's net profits for the current year plus its retained net profits for the preceding two calendar years, less required transfers to surplus. Under Maryland law, cash dividends may be paid without approval from the Department of Financial Institutions only out of undivided profits.

State and federal bank regulatory agencies also have authority to prohibit a bank from paying dividends if such payment is deemed to be an unsafe or unsound practice. Compliance with minimum capital requirements, as presently in effect, or as they may be amended from time to time, could limit the amount of dividends that the Bank may pay. As a depository institution, the deposits of which 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 the FDIC. The Bank currently is not in default under any of its obligations to the FDIC. Even if the Bank has earnings in an amount sufficient to pay cash dividends, the Board of Directors may determine to retain earnings for the purpose of funding the growth of the Bank.

Under Maryland law, Bancorp may pay dividends only out of retained earnings. State and federal bank regulatory agencies have authority to prohibit a bank from paying dividends if such payment is deemed to be an unsafe or unsound practice, and the Federal Reserve Board has the same authority over bank holding companies.

The Federal Reserve Board has established guidelines with respect to the maintenance of appropriate levels of capital by registered bank holding companies. Compliance with such standards, as presently in effect, or as they may be amended from time to time, could possibly limit the amount of dividends that the Company may pay in the future. In 1985, the Federal Reserve Board issued a policy statement on the payment of cash dividends by bank holding companies. In the statement, the Federal Reserve Board expressed its view that a holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income, or which could only be funded in ways that weaken the holding company's financial health, such as by borrowing.

Please refer to Note 13 to the consolidated financial statements included in this report for additional information.

Issuer Repurchases of Securities During the Fourth Quarter of 2012. The following table provides information on the Company's purchase of its common stock during the quarter ended December 31, 2012.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
October 1 - 31, 2012	—	N/A	—	—
November 1 - 30, 2012	2,000	$12.00	—	—
December 1 - 31, 2012	—	N/A	—	291,350(2)

(1) On June 25, 2012, the Company's Board of Directors approved a share repurchase program that authorizes the repurchase of up to 300,000 shares of the Company's outstanding common stock, subject to a maximum expenditure of $5.0 million. Repurchases under the program may be made on the open market and in privately negotiated transactions from time to time until June 30, 2012, or earlier termination of the program by the Board.

(2) Subject to a maximum expenditure of $5.0 million. Number of shares indicated is the remaining number of shares authorized for repurchase as of the end of the indicated period. As of December 31, 2012, the Company has expended $104 thousand for share repurchases under the current repurchase plan.

Recent Sales of Unregistered Shares. None.

Use of Proceeds. Not Applicable.

Securities Authorized for Issuance Under Equity Compensation Plans. The following table sets forth information regarding outstanding options and other rights to purchase common stock granted under the Company's compensation plans.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
	(a)	(b)	(c)
Equity compensation plans approved by security holders(1)	152,840	$11.26	200,000
Equity compensation plans not approved by security holders	0	N/A	0
Total	152,840	$11.26	200,000

(1) Consists of the 2001 Stock Option Plan and the 2011 Stock Incentive Plan. Certain employment arrangements entered into by the Company, which have not been specifically approved by stockholders provide for the issuance under the 2001 Stock Option Plan of options to purchase common stock to certain officers. All of such options have been issued and are fully vested. For additional information, see the discussion of employment agreements in response to Item 10 and Note 10 to the consolidated financial statements.

Annual Meeting of Shareholders

Tuesday, April 23, 2012—7:00 p.m.
Dutch's Daughter
581 Himes Avenue
Frederick, MD 21703

Transfer Agent

Registrar & Transfer Company
10 Commerce Drive
Cranford, NJ 07016
1-800-368-5948

Market Makers

RBC Wealth Management
365 W. Patrick Street
Frederick, MD 21701
301-662-6488

Koonce Securities, Inc.
6550 Rock Spring Drive, Suite 600
Bethesda, MD 20817
1-800-368-2806

Availability of 10-K Report

The annual report on Form 10-K filed with the Securities and Exchange Commission is available without charge upon written request to:

William R. Talley, Jr.
Executive Vice President, Chief Financial Officer and Chief Operating Officer
Frederick County Bancorp, Inc.
P.O. Box 1100
Frederick, Maryland 21702-0100

Internet Access to Company Documents

The Company provides access to its filings with the Securities and Exchange Commission at www.fcbmd.com. After accessing the web site, the filings are available upon selecting "About FCB" and then "Investor Relations." Reports available include the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after the reports are electronically filed or furnished to the SEC.

Principal Affiliate

Balance Sheet

(Dollars in thousands)	December 31, 2012			
	Assets		Liabilities and Equity	
Frederick County Bank	Cash and due from banks	$ 2,249	Total deposits	$269,181
9 North Market Street	Earning assets	295,628	Long-term borrowings	10,000
Frederick, MD 21701	Allowance for loan losses	(3,571)	Accrued interest and other liabilities	1,192
301-620-1400				
Five Offices	Other assets	17,741	Shareholders' equity	31,674
	Total assets	$312,047	Total liabilities and shareholders' equity	$312,047
	Net income	$ 1,630		

Exhibits and Financial Statement Schedules.

The following financial statements are included in this report:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets at December 31, 2012 and 2011
Consolidated Statements of Income for the years ended December 31, 2012 and 2011
Consolidated Statements of Comprehensive Income for the years ended December 31, 2012 and 2011
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2012 and 2011
Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011
Notes to Consolidated Financial Statements

All financial statement schedules have been omitted as the required information is either inapplicable or included in the consolidated financial statements or related notes.

Exhibit No.	Description of Exhibits
3(a)	Articles of Incorporation of the Company, as amended(1)
3(b)	Bylaws of the Company(2)
4(a)	Indenture, dated as of December 15, 2006 between Frederick County Bancorp, Inc. and U.S. Bank National Association, as trustee(3)
4(b)	Amended and Restated Declaration of Trust, dated as December 15, 2006 between Frederick County Bancorp, Inc. and U.S. Bank National Association, as trustee, and Martin S. Lapera and William R. Talley, Jr. as Administrators(3)
4(c)	Guarantee Agreement dated as of dated as December 15, 2006 between Frederick County Bancorp, Inc. and U.S. Bank National Association, as Guarantee Trustee(3)
10(a)	2001 Stock Option Plan(4)
10(b)	Employment Agreement between the Bank and Martin S. Lapera(5)
10(c)	Employment Agreement between the Bank and William R. Talley, Jr.(6)
10(f)	2002 Executive and Director Deferred Compensation Plan, as amended(7)
10(g)	Amendment No. 1 to the 2002 Executive and Director Deferred Compensation Plan(7)
10(h)	Promissory Note with Atlantic Central Bankers Bank(8)
10(i)	Amendment to Loan Documents(9)
10(j)	2011 Stock Incentive Plan(10)
11	Statement Regarding Computation of Per Share Income—Please refer to Note 1 to the consolidated financial statements for the year ended December 31, 2012.
21	Subsidiaries of the Registrant
23(a)	Consent of Stegman & Company
31(a)	Certification of Martin S. Lapera, President and Chief Executive Officer
31(b)	Certification of William R. Talley, Jr., Executive Vice President and Chief Financial Officer
32(a)	Certification of Martin S. Lapera, President and Chief Executive Officer

Exhibit No.	Description of Exhibits
32(b)	Certification of William R. Talley, Jr., Executive Vice President and Chief Financial Officer
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets at December 31, 2012 and 2011, (ii) the Consolidated Statements of Income for the years ended December 31, 2012 and 2011, (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2012 and 2011, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2012 and 2011, (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011 and (vi) the Notes to the Consolidated Financial Statements

(1) Incorporated by reference to Exhibit of the same number to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2004, as filed with the Securities and Exchange Commission.

(2) Incorporated by reference to Exhibit of the same number to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003, as filed with the Securities and Exchange Commission.

(3) Not filed in accordance with the provision of Item 601(b)(4)(v) of Regulation SK. The Company agrees to provide a copy of these documents to the Commission upon request.

(4) Incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-8 (no. 333-111761).

(5) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 29, 2009.

(6) Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 29, 2009.

(7) Incorporated by reference to Exhibit of the same number to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004, as filed with the Securities and Exchange Commission.

(8) Incorporated by reference to Exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission.

(9) Incorporated by reference to Exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, as filed with the Securities and Exchange Commission.

(10) Incorporated by reference to Exhibit of the same number to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FREDERICK COUNTY BANCORP, INC.

DATE: February 20, 2013

By: /s/ MARTIN S. LAPERA

Martin S. Lapera
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 20, 2013.

Name	Position	Signature
Ellis R. Barber	Director	/s/ ELLIS R. BARBER
Emil D. Bennett	Director	/s/ EMIL D. BENNETT
John N. Burdette	Director, Chairman Emeritus of the Board	/s/ JOHN N. BURDETTE
Robert S. Carmack	Director	/s/ ROBERT S. CARMACK
J. Denham Crum	Director	/s/ J. DENHAM CRUM
William S. Fout	Director	/s/ WILLIAM S. FOUT
Helen G. Hahn	Director	/s/ HELEN G. HAHN
Martin S. Lapera	President, Chief Executive Officer and Director (Principal Executive Officer)	/s/ MARTIN S. LAPERA
Kenneth G. McCombs	Vice Chairman of the Board of Directors	/s/ KENNETH G. MCCOMBS
Farhad Memarsadeghi	Director	/s/ FARHAD MEMARSADEGHI
Raymond Raedy	Chairman of the Board of Directors	/s/ RAYMOND RAEDY
William R. Talley, Jr.	Executive Vice President, Chief Financial Officer and Chief Operating Officer (Principal Financial and Accounting Officer)	/s/ WILLIAM R. TALLEY, JR.

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**FREDERICK COUNTY
BANCORP, INC.**

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