FREDERICK COUNTY BANCORP, INC.

2017 ANNUAL REPORT

NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

FCB
FREDERICK
COUNTY BANK

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Letter 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 PINK: FCBI), it is my pleasure to present the 2017 Annual Report of the Company to our shareholders.

For the quarter ended December 31, 2017, the Company recorded net income of $341 thousand and diluted earnings per share of $0.22, as compared to net income of $149 thousand and diluted earnings per share of $0.10 recorded for the fourth quarter of 2016. The Company earned $2.1 million with diluted earnings per share of $1.32 for the year ended on December 31, 2017, as compared to $1.3 million in earnings and diluted earnings per share of $0.82 for the same period in 2016.

For the full year of 2017, the increase in total earnings was due primarily to increases in net interest income of $908 thousand and in total noninterest income of $610 thousand in the full year of 2017 as compared to the same period in 2016, respectively. The increase in total noninterest income was due primarily to increases in securities gains of $365 thousand, gain on sale of loans of $187 thousand, and in other operating income of $118 thousand in the full year of 2017 as compared to the same period in 2016. The provision for income taxes increased by $914 thousand in the full year of 2017 as compared to the same period of 2016 due to a higher level of pre-tax income and the recognition of a decrease in the deferred tax assets of $231 thousand in 2017 due to the reduction in the federal corporate income tax rate.

Total assets, as of December 31, 2017, stood at $405.8 million, with total deposits of $332.0 million and gross loans of $322.2 million, representing increases of 7.1%, 3.1%, and 5.2%, respectively, compared to December 31, 2016. Total shareholders’ equity at December 31, 2017 was $32.6 million, an increase of $1.5 million from December 31, 2016.

During the last several years, the Bank has invested heavily in establishing a brand that stands out among the many banks that compete in Frederick County. Our new state-of-the-art bank centers on the Square Corner in downtown Frederick and on Thomas Johnson Drive are successfully delivering a unique client experience where technology and personal service meet to enhance customer engagement. The investment in our bank centers and technology complements the strong investment in the development and growth of our employee team. Our employees are very committed to providing the best customer service possible in an environment where technological innovation and changing consumer behavior and preferences demand high levels of flexibility, creativity and adaptability. Equal to our commitment to our customers is the high level of employee community involvement. A community bank cannot be successful if it does not give back to its community. To that end, we believe a significant amount of employee engagement in community activities and our strong financial support of community initiatives continue to represent good investments in Frederick County Bank’s future.

Our outlook for 2018 is very positive. The Bank remains well capitalized and positioned for growth. We believe that the investments in our employees, our bank centers and in technology, together with our positioning as one of only a few local community banks in Frederick, will contribute to increased earning and enhanced shareholder value for 2018 and years to come.

In closing, we want to thank our shareholders, clients and employees for their continued support. Frederick County Bank could not exist if not for shareholders, customers, employees and all stakeholders, who believe that community banks contribute significantly to the economic strength and social fabric of a community.

Sincerely,

Martin S. Lapera
President and CEO

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.

	Years Ended December 31,				
(dollars in thousands, except per share amounts)	***2017***	***2016***	***2015***	***2014***	***2013***
Summary of Operating Results:					
Total interest income	$15,109	$13,853	$13,172	$13,022	$12,621
Total interest expense	1,789	1,441	1,601	1,683	1,735
Net interest income	13,320	12,412	11,571	11,339	10,886
Provision (reversal) for loan losses	645	850	(178)	-	275
Net interest income after provision for loan losses	12,675	11,562	11,749	11,339	10,611
Securities gains (losses)	416	51	98	-	(17)
Gain on sales of loans	439	252	729	285	-
(Loss) gain on foreclosed properties	(34)	34	131	(37)	20
Bank owned life insurance	211	223	231	240	252
Other noninterest income	836	698	737	677	668
Noninterest expenses	11,051	11,035	10,576	10,008	9,182
Income before provision for income taxes	3,492	1,785	3,099	2,496	2,352
Provision for income taxes	1,442	528	995	782	661
Net income	2,050	1,257	2,104	1,714	1,691
Other comprehensive (loss) income, net of taxes	(136)	545	(75)	569	(1,054)
Comprehensive income	$ 1,914	$ 1,802	$ 2,029	$ 2,283	$ 637
Per Share Data:					
Basic earnings	$1.37	$0.85	$1.43	$1.16	$1.12
Diluted earnings	$1.32	$0.82	$1.36	$1.12	$1.10
Dividends declared	$0.30	$0.28	$0.28	$0.28	$0.23
Book value at period-end	$21.85	$20.89	$20.03	$18.92	$17.64
Shares outstanding at period-end	1,493,044	1,491,844	1,475,929	1,475,154	1,484,174
Weighted average shares outstanding:					
Basic	1,492,792	1,486,502	1,475,569	1,474,026	1,503,888
Diluted	1,551,807	1,542,119	1,543,502	1,528,678	1,543,503
Other Data (At Year-End):					
Assets	$405,796	$378,753	$350,542	$343,116	$318,131
Investments	27,112	26,331	25,992	25,995	28,685
Loans	322,156	306,242	278,950	262,525	253,913
Deposits	332,005	321,952	295,632	284,985	266,988
Short-term borrowings	4,200	3,300	3,300	3,300	3,050
FHLB advances	29,700	15,000	15,000	20,000	15,000
Junior subordinated debentures	6,186	6,186	6,186	6,186	6,186
Shareholders’ equity	32,621	31,161	29,556	27,914	26,187
Performance Ratios:					
Return on average assets	0.52%	0.34%	0.60%	0.52%	0.53%
Return on average shareholders’ equity	6.34%	4.09%	7.31%	6.28%	6.33%
Allowance for loan losses to total loans	1.01%	1.22%	1.10%	1.28%	1.35%
Nonperforming assets to total loans and foreclosed properties	1.77%	2.42%	2.11%	2.12%	2.09%
Nonperforming assets to total assets	1.41%	1.96%	1.68%	1.63%	1.67%
Ratio of net charge-offs to average loans	0.36%	0.06%	0.05%	0.02%	0.18%
Average equity to average assets	8.16%	8.39%	8.24%	8.22%	8.40%
Tier 1 capital to risk-weighted assets	10.35%	10.35%	11.58%	11.85%	11.83%
Total capital to risk-weighted assets	11.23%	11.40%	12.57%	13.02%	13.07%

Board of Directors

Raymond Raedy
*Chairman of the Board**
Investor/Business Owner

Ellis R. Barber
President; Cindell Construction

Emil D. Bennett
President/Owner; Rock Creek Realty

Robert S. Carmack
Former President& CEO
Carmack Insurance Group

Kimberly S. Chaney
President/Owner Kimberly S. Chaney CPA, LLC

J. Denham Crum
*Vice Chairman of the Board**
General Managing Partner
Crumland Farms, LLC

Nicholas J. Damoulakis
President
Orases

Karlys L. Kline
Retired/ VP Structural Systems

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
J. Denham Crum

President & Chief Executive Officer
Martin S. Lapera

Executive Vice President, Chief Financial Officer & Chief Operating Officer
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

Aspen Ridge
165A Thomas Johnson Drive
Frederick MD 21702

Crestwood
6910 Crestwood Boulevard
Frederick, MD 21703

East Frederick
490 Monocacy Boulevard
Frederick, MD 21701

2 North on the Square
2 North Market 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
Cathy S. Alexander
Richard A. Davies
Taitia L. Elliott
Denise Guyton-Boyer
Margaret M. McGreevy
Craig P. Russell
Harry L. Weetenkamp, Jr.
Crystal L. Wiles

Vice Presidents
Clark W. Briggs
Michael S. Burrier
Lori C. Cromwell
Michael L. Crum
Steven A. Fennington
Tammie S. Jones
Yvonne M. Reeder
Anna R. Rini
Ann M Seiss
Kristen R. Snow
Kristie L. Stottlemyer
Joseph A. Wolf
Wendy L. Wotring
John D. Yee

Assistant Vice Presidents
Charlene F. Collins
Kellye P. Murphy-Sons
Anjeanette R. Sparkman
Jennifer A. Tyler

FREDERICK COUNTY BANCORP, INC.
9 North Market Street
Frederick, Maryland 21701

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held April 24, 2018

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 24, 2018 at 7:00 p.m. for the following purposes:

(1) To elect ten (10) directors to serve until their successors are duly elected and qualified.

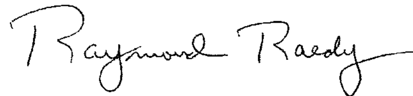
(2) To ratify the appointment of Dixon Hughes Goodman LLP as the Company's independent auditor for the year ending December 31, 2018.

(3) 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 8, 2018 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 9, 2018

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.

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 24, 2018 (the "Meeting"), and at any adjournment or postponement of the Meeting. The purposes of the Meeting are:

(1) To elect ten (10) directors to serve until their successors are duly elected and qualified.

(2) To ratify the appointment of Dixon Hughes Goodman LLP as the Company's independent auditor for the year ending December 31, 2018.

(3) 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 9, 2018. A copy of our Annual Report for the year ended December 31, 2017, 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 9, 2018 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 1,493,104 shares of our common stock, par value $0.01 per share, outstanding, held by approximately 570 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 and **FOR** ratification of the appointment of the independent auditor. 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 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) is not considered a "routine" matter. As such, your broker cannot vote your shares 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, 9 North Market Street, Frederick, Maryland 21701, 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 deadline established by your recordholder, in which case, the later submitted proxy will be recorded and the earlier proxy will be revoked.

VOTING SECURITIES AND PRINCIPAL HOLDERS

The following table sets forth certain information as of February 9, 2018 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. Shares shown include shares as to which the named person has or shares voting and/or investment power with respect to all such shares. 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]	Stock Options[2]	Total	Percentage of Class Beneficially Owned[2]
Directors					
Ellis R. Barber	63	3,832	-	3,832	0.26%
Emil D. Bennett	71	37,800	5,000	42,800	2.86%
Robert S. Carmack	64	12,657	-	12,657	0.85%
Kimberly S. Chaney	56	6,000	-	6,000	0.40%
J. Denham Crum	72	17,165	5,000	22,165	1.48%
Nicholas J. Damoulakis	41	928	-	928	0.06%
Karlys L. Kline	63	750	-	750	0.05%
Martin S. Lapera	65	122,056	40,000	162,056	10.57%
Farhad Memarsadeghi	72	64,400	5,000	69,400	4.63%
Raymond Raedy	77	54,838	1,610	56,448	3.78%
Executive Officers					
William R. Talley, Jr.	62	33,074	17,500	50,574	3.35%
All directors, nominees and executive officers as a group (11 persons)		353,500	74,110	427,610	27.28%

(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.

(2) Based on 1,493,104 shares outstanding as of February 9, 2018, 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.

PROPOSAL 1 - ELECTION OF DIRECTORS

Ten (10) directors will be elected at the Meeting for a one-year period until the 2019 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 and nominee 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 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 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. Mr. Bennett has served as a director since 2002.

Robert S. Carmack. Mr. Carmack is the former President and CEO of Carmack Insurance Group as of July 1, 2017 after selling his company. 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. 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 joined the Board of Directors in May 2012.

Kimberly S. Chaney. Ms. Chaney has been a CPA for over 30 years and currently owns her own accounting practice specializing in financial services and consulting for small businesses. She has formerly held senior management positions in several Frederick County companies in the construction, real estate and retail industries. Ms. Chaney holds a Masters in Finance from the University of Baltimore and a BBA in Accounting from James Madison University. She has served as an adjunct professor in the construction management, business and accounting departments at Frederick Community College. Along with being a past President of the Rotary Club of Carroll Creek, she has been an active community volunteer, serving the Frederick County Public School System and the Frederick County YMCA in numerous capacities. A lifelong resident of Frederick County, Ms. Chaney has many personal and business contacts in the Frederick market. Ms. Chaney joined the Board of Directors in September 2013.

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 has served as a director since 2001.

Nicholas J. Damoulakis. Mr. Damoulakis is president for Frederick, Maryland's office of Orases. A creative problem solver and strategic thinker, Mr. Damoulakis has over 20 years of experience in the digital landscape. An active thought leader in the industry, he authored and created the Digital Framework, which is an interactive process of working with organizations to align values to their culture, leadership style and strategic thinking. Nick's enthusiasm for value-driven cultures earned Orases several awards including the Entrepreneur Magazine – 2015 Best Culture accolade. Mr. Damoulakis has held leadership roles in the Frederick community; serving as the president and past treasurer of his church and also participating in several volunteer activities and community programs including Tech Frederick, Entrepreneurial Council, Vistage, Accelerent, Frederick Innovative Technology Center and the new Tech Incubator program in Downtown Frederick. He holds a B.A. from Frostburg State University and a Master's in Information Technology from R.I.T. He also holds concentrations in User Interface Design, Software Development and Project Management. He currently resides in Frederick County. Mr. Damoulakis joined the Board of Directors in March 2016.

Karlys L. Kline. Ms. Kline retired as the Vice President of Structural Systems in 2008 and has since dedicated her time to community service and philanthropic activities. She is currently active in numerous civic and professional organizations, including the Boards of Frederick Memorial Hospital, Family Heritage Trust Company, Homewood of Frederick, Maxwell Place HOA and Friends of Carroll Creek Urban Park. She is on Hood College's Board of Associates and the Sheriff's Citizen's Advisory Council. In addition, she is the Founder of the Women's Giving Circle of Frederick County and received the Good Samaritan Award from Frederick Memorial Hospital in 2012 in honor of her tireless volunteer efforts. Ms. Kline is a long-term Frederick resident for over 20 years and resides in downtown Frederick. Ms. Kline has served as director since 2014.

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.

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 35 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 has served as a director since 2002.

Raymond Raedy. Mr. Raedy was the 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, 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 Association, 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 has served as a director since 2001.

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 of the Board of Trustees for the Record Street Home for the Aged, the former Treasurer and Chair of the Finance Committee for the Board of Trustees for the Frederick Community College Foundation, the former Treasurer of Rotary International District 7620 and a current member of the Rotary Club of Carroll Creek.

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, 2017 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 R. Barber	$10,300	$--	$--	$--	$10,300
Emil D. Bennett	$13,600	$--	$--	$--	$13,600
Robert S. Carmack	$11,200	$--	$--	$--	$11,200
Kimberly S. Chaney	$12,100	$--	$--	$--	$12,100
J. Denham Crum	$24,500	$--	$--	$--	$24,500
Nicholas J. Damoulakis	$11,900	$--	$--	$--	$11,900
Karlys L. Kline	$13,000	$--	$--	$--	$13,000
Farhad Memarsadeghi	$13,800	$--	$--	$--	$13,800
Raymond Raedy	$34,500	$--	$--	$--	$34,500

(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 2017.
(2) At December 31, 2017, 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. Carmack – 0; Ms. Chaney – 0; Mr. Crum – 5,000; Mr. Damoulakis – 0; Ms. Kline – 0; Mr. Memarsadeghi – 5,000; Mr. Raedy – 1,610. No awards of restricted stock or restricted stock units have been issued to directors to date.

During 2017, 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. Mr. Raedy is entitled to additional compensation of $5,000 per quarter for his role as Chairman of the Board and Secretary and Mr. Crum is entitled to additional compensation of $3,000 per quarter for his role as Vice Chairman of the Board. The directors did not receive any additional compensation for the Company's Board of Directors or committee meetings.

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 2017, no bonuses were paid to the Company's directors.

EXECUTIVE COMPENSATION

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, 2017 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, President and Chief Executive Officer of the Company and the Bank	2017	$318,687	$--	$--	$--	$27,818(3)	$346,505
	2016	$315,600	$--	$--	$--	$26,413(4)	$342,013

Name and Principal Position	Year	Salary	Bonus(1)	Stock Awards(2)	Option Awards(2)	All Other Compensation	Total
William R Talley, Jr., Executive Vice President, Chief Financial Officer and Chief Operating Officer of the Company and the Bank	2017	$232,866	$--	$--	$--	$23,349(5)	$256,215
	2016	$227,787	$--	$--	$--	$22,658(6)	$250,445

(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). No stock based compensation awards were made during 2017 or 2016.

(3) Includes $10,800 in 401(k) matching contributions, $10,000 car allowance and $7,018 insurance premiums.

(4) Includes $9,689 in 401(k) matching contributions, $10,000 car allowance and $6,724 insurance premiums.

(5) Includes $9,997 in 401(k) matching contributions, $8,000 car allowance and $5,352 insurance premiums.

(6) Includes $9,560 in 401(k) matching contributions, $8,000 car allowance and $5,098 insurance premiums.

No shares of restricted stock or restricted stock units under the 2011 Stock Incentive Plan were awarded to the named executives in 2017. 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.

Base Salary. Mr. Lapera's base salary increased in 2017 by 2.5% to $323,852. The base salary of the other named executive officer, William R. Talley, Jr., EVP, CFO and COO, increased by 2.5% to $233,743.

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 2017, 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 2017 and 2016 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 2017 are as follows: $10,800 in 401(k) matching contributions, $10,000 car allowance and $7,018 of insurance premiums. These amounts for Mr. Talley during 2017 are as follows: $9,997 in 401(k) matching contributions, $8,000 car allowance and $5,352 of insurance premiums.

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 September 30, 2018. Under his agreement, Mr. Lapera is entitled to a current annual base salary of $323,852. 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 September 30, 2018. Under his agreement, Mr. Talley is entitled to a current annual base salary of $233,743. 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, 2017, their continued payments would be based on their current salaries of $323,852 and $233,743 for Mr. Lapera and Mr. Talley, respectively, and they would receive approximately $255,433 and $185,131, inclusive of the value of continued benefits, 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, 2017, Mr. Lapera would receive a lump sum payment of approximately $823,984, and Mr. Talley would be entitled to receive a lump sum payment of approximately $610,558.

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, 2017 and 2016, loans to directors and officers and their related parties, including loans guaranteed by such persons, aggregated $8.90 million and $4.22 million, respectively, which represented approximately 27.29% and 13.56% 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 lease in July 2011 for approximately 10,521 square feet of office space owned by a limited liability company of which Messrs. Lapera and Raedy are members. The lease term commenced on July 11, 2011, which expired on July 10, 2016 and subsequently was renewed until July 10, 2021. In September 2014, the lease was amended to approximately 11,367 square feet and it maintained the same maturity date. Under this lease, monthly payments for the period September 1, 2014 to July 10, 2016 are $15,762 and from July 11, 2016 the monthly payments are $16,387. 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.

PROPOSAL 2- RATIFICATION OF THE APPOINTMENT OF INDEPENDENT AUDITOR

The Audit Committee of the Board of Directors has selected Dixon Hughes Goodman LLP ("DHG") as the Company's independent auditor to audit the Company's financial statements for the fiscal year ending December 31, 2018. The Company has been advised by DHG 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. DHG audited the financial statements of the Company for the year ended December 31, 2017. Representatives of DHG 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.

The Board of Directors recommends that shareholders vote FOR the ratification of the appointment of DHG the Company's independent auditor. 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 auditor. If the shareholders fail to ratify this appointment, the Audit Committee will reconsider whether to retain DHG, and may retain DHG or another firm, without resubmitting the matter to shareholders.

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.

ANNUAL REPORT

The Company will provide to any shareholder solicited hereby, without charge, a copy of its Annual Report for the year ended December 31, 2017, 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

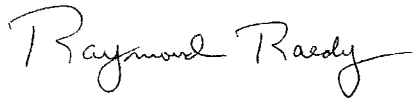
The Company must receive written notice of any shareholder proposal or nomination proposed to be acted upon at the next annual meeting not later than December 9, 2018.

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 9, 2018

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Frederick County Bancorp, Inc. and Subsidiaries (the "Company") which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Baltimore, Maryland
February 23, 2018

Frederick County Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31,	
(dollars in thousands)	*2017*	*2016*
Assets		
Cash and due from banks	$ 2,726	$ 2,811
Federal funds sold	5	1,059
Interest-bearing deposits in other banks	34,628	25,804
Cash and cash equivalents	37,359	29,674
Investment securities available-for-sale - at fair value	24,745	24,644
Restricted stock	2,367	1,687
Loans held for sale	-	357
Loans	322,156	306,242
Less: Allowance for loan losses	(3,265)	(3,744)
Net loans	318,891	302,498
Bank premises and equipment	9,542	7,490
Bank owned life insurance	8,946	8,735
Foreclosed properties	1,264	866
Accrued interest and other assets	2,682	2,802
Total assets	$405,796	$378,753
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing deposits	$ 89,616	$ 83,249
Interest-bearing deposits	242,389	238,703
Total deposits	332,005	321,952
Short-term borrowings	4,200	3,300
FHLB advances	29,700	15,000
Junior subordinated debentures	6,186	6,186
Accrued interest and other liabilities	1,084	1,154
Total liabilities	373,175	347,592
Commitments and Contingencies (Notes 9, 16, and 17)		
Shareholders' Equity		
Common stock, per share par value $0.01; 10,000,000 shares authorized; 1,493,044 and 1,491,844 shares issued and outstanding, respectively	15	15
Additional paid-in capital	15,397	15,404
Retained earnings	16,829	15,289
Accumulated other comprehensive income	380	453
Total shareholders' equity	32,621	31,161
Total liabilities and shareholders' equity	$405,796	$378,753

See Notes to Consolidated Financial Statements.

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

(dollars in thousands, except per share amounts)	*Years Ended December 31,* *2017*	*2016*
Interest income:		
Interest and fees on loans	$14,075	$13,198
Interest and dividends on investment securities:		
Taxable	408	250
Tax exempt	105	147
Dividends	118	97
Interest on federal funds sold	1	6
Other interest income	402	155
Total interest income	15,109	13,853
Interest expense:		
Interest on deposits	1,250	1,072
Interest on short-term borrowings	164	113
Interest on FHLB advances	198	110
Interest on junior subordinated debentures	177	146
Total interest expense	1,789	1,441
Net interest income	13,320	12,412
Provision for loan losses	645	850
Net interest income after provision for loan losses	12,675	11,562
Noninterest income:		
Securities gains	416	51
Gain on sale of loans	439	252
(Loss) gain on foreclosed properties	(34)	34
Bank owned life insurance	211	223
Service fees	380	360
Other operating income	456	338
Total noninterest income	1,868	1,258
Noninterest expenses:		
Salaries and employee benefits	6,572	6,453
Occupancy and equipment expenses	1,719	1,880
Other operating expenses	2,760	2,702
Total noninterest expenses	11,051	11,035
Income before provision for income taxes	3,492	1,785
Provision for income taxes	1,442	528
Net income	$ 2,050	$ 1,257
Basic earnings per share	$1.37	$0.85
Diluted earnings per share	$1.32	$0.82
Basic weighted average number of shares outstanding	1,492,792	1,486,502
Diluted weighted average number of shares outstanding	1,551,807	1,542,119
Dividends declared per share	$0.30	$0.28

See Notes to Consolidated Financial Statements.

Frederick County Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

	Years Ended December 31,	
(dollars in thousands)	*2017*	*2016*
Net income	$2,050	$1,257
Changes in net unrealized gains on securities available for sale, net of income taxes of $76 in 2017 and $375 in 2016	115	576
Reclassification adjustment for gains realized, net of income taxes of $165 in 2017 and $20 in 2016	(251)	(31)
Total other comprehensive (loss) income	(136)	545
Total comprehensive income	$1,914	$1,802

See Notes to Consolidated Financial Statements.

Frederick County Bancorp, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

	Years Ended December 31, 2017 and 2016					
(dollars in thousands)	*Shares Outstanding*	*Common Stock*	*Additional Paid-In Capital*	*Retained Earnings*	*Accumulated Other Comprehensive Income (Loss)*	*Total Shareholders' Equity*
Balance, January 1, 2016	1,475,929	$15	$15,184	$14,449	$(92)	$29,556
Comprehensive income				1,257	545	1,802
Dividends declared on common stock, $0.28 per share				(417)		(417)
Shares issued under stock option transactions	15,915		180			180
Compensation expense from stock option transactions			12			12
Excess tax benefit from equity-based awards			28			28
Balance, December 31, 2016	1,491,844	15	15,404	15,289	453	31,161
Comprehensive income				2,050	(136)	1,914
Reclassification of remaining tax effects on deferred tax assets on securities available for sale				(63)	63	-
Dividends declared on common stock, $0.30 per share				(447)		(447)
Shares issued under stock option transactions	1,200		13			13
Compensation expense from stock option transactions			(20)			(20)
Balance, December 31, 2017	1,493,044	$15	$15,397	$16,829	$380	$32,621

See Notes to Consolidated Financial Statements.

Frederick County Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended December 31	
(dollars in thousands)	*2017*	*2016*
Cash flows from operating activities:		
Net income	$ 2,050	$ 1,257
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	497	448
Deferred income taxes	294	54
Provision for loan losses	645	850
Securities gains	(416)	(51)
Gain on sale of loans	(439)	(252)
Loans originated for sale	(7,865)	(6,324)
Proceeds from loans sold	8,303	6,219
Net premium amortization on investment securities	133	152
Loss on disposal of bank premises and equipment	2	6
Bank owned life insurance income	(211)	(223)
Loss (gain) on sale of foreclosed property	34	(34)
Stock-based compensation expense	(20)	12
Excess tax benefit from stock-based awards	-	(28)
Increase in accrued interest and other assets	(237)	(135)
Increase (decrease) in accrued interest and other liabilities	81	(9)
Net cash provided by operating activities	2,851	1,942
Cash flows from investing activities:		
Purchases of investment securities available-for-sale	(4,794)	(6,381)
Proceeds from sales of investment securities available-for-sale	901	1,790
Proceeds from maturities, prepayments and calls of investment securities available for sale	3,851	5,109
Purchase of restricted stock	(680)	(58)
Net increase in loans	(17,238)	(27,622)
Purchases of bank premises and equipment	(2,551)	(1,499)
Proceeds from sale of foreclosed properties	126	34
Net cash used in investing activities	(20,385)	(28,627)
Cash flows from financing activities:		
Net increase in NOW, money market accounts, savings accounts and noninterest-bearing deposits	18,121	19,846
Net (decrease) increase in time deposits	(8,068)	6,474
Net increase in short-term borrowings	900	-
Proceeds from FHLB advances	14,700	-
Proceeds from issuance of common stock	13	180
Dividends paid on common stock	(447)	(417)
Excess tax benefit from stock-based awards	-	28
Net cash provided by financing activities	25,219	26,111
Net increase (decrease) in cash and cash equivalents	7,685	(574)
Cash and cash equivalents – beginning of year	29,674	30,248
Cash and cash equivalents – end of year	$37,359	$29,674
Supplemental cash flow disclosure:		
Interest paid	$1,753	$1,436
Income taxes paid	$1,419	$659
Change in unrealized (losses) gains on securities available-for-sale, net of taxes	$(136)	$545
Transfer of loans to foreclosed properties	$558	$160

See 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. On July 31, 2013, the Company de-registered as a reporting company with the Securities and Exchange Commission (the "SEC"), and therefore is no longer required to file periodic financial reports or other information with the SEC. 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.

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 in which the Bank invests. Note 4 discusses the types of lending in which the Bank engages. 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 to 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.

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, 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) that 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 fair value.

Restricted stock is stock from the Federal Home Loan Bank of Atlanta ("FHLB"), the Federal Reserve Bank of Richmond ("Federal Reserve Bank"), the Atlantic Community Bankers Bank and Community Bankers 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. A determination as to whether there has been an impairment of a restricted stock investment is performed on a quarterly basis and includes a review of the current financial condition of the issuer.

Loans held for sale:

The Company engages in sales of residential mortgage loans and loans guaranteed by the Small Business Administration that are originated by the Bank. Loans held for sale are carried at the lower of aggregate cost or fair value. Fair value is derived from secondary market quotations for similar instruments. Gains and losses on sales of these loans are recorded as a component of noninterest income in the consolidated statements of income.

When the Company retains the servicing rights to collect and remit principal and interest payments, manage escrow account matters and handle borrower relationships on mortgage loans sold, resulting service fee income is included in noninterest income. The Company's current practice is to sell loans on a servicing released basis, and, therefore, it has no intangible asset recorded for the value of such servicing at either December 31, 2017 or December 31, 2016.

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. 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 and residential construction and land development, commercial real estate, residential real estate, commercial and industrial or consumer). 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 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 stated at the principal amount outstanding, net of unamortized deferred costs and fees. Interest income on loans is accrued at the contractual rate on the principal amount outstanding. It is the Company's policy to discontinue the accrual of interest when circumstances indicate that collection is doubtful. Deferred fees and costs on loans are being amortized on the interest method over the term of the loan.

Management considers loans impaired when, based on current information, it is probable that the Company will not collect all principal and interest payments according to contractual terms. Loans are evaluated for impairment in accordance with the Company's portfolio monitoring and ongoing risk assessment procedures. Management considers the financial condition of the borrower, cash flow of the borrower, payment status of the loan, and the value of the collateral, if any, securing the loan. Generally, impaired loans do not include large groups of smaller balance homogenous loans such as residential real estate and consumer type loans which are evaluated collectively for impairment and are generally placed on nonaccrual when the loan becomes 90 days past due as to principal or interest. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (90 days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided solely by the collateral. In appropriate circumstances, interest income on impaired loans may be recognized on a cash basis.

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 as noninterest income. These insurance policies can be surrendered subject to certain surrender penalties applied by the insurance carriers, as well as potential income taxes to be paid.

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 the 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 plans:

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.

Compensation cost for all stock-based awards is measured at fair value on the date of grant and recognized over the service period for awards expected to vest. Such value is recognized as expense over the service period. Any adjustment due to the forfeiture of stock-based awards will be recorded as a cumulative adjustment in the period the awards are forfeited.

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.

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, 2013.

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

	Years Ended December 31,	
(dollars in thousands, except per share amounts)	*2017*	*2016*
Net income	$2,050	$1,257
Basic earnings per share	$1.37	$0.85
Diluted earnings per share	$1.32	$0.82
Basic weighted average number of shares outstanding	1,492,792	1,486,502
Effect of dilutive securities – stock options	59,015	55,617
Diluted weighted average number of shares outstanding	1,551,807	1,542,119
Anti-dilutive securities outstanding	-	2,000

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.

Subsequent events:

The Company has evaluated the accompanying consolidated financial statements for subsequent events and transactions through February 23, 2018, the date these financial statements were available for issue, based on ASC Topic 855 *Subsequent Events*, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

New Authoritative Accounting Guidance

The Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-01, *"Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities."* The amendments in this Update make targeted improvements to generally accepted accounting principles ("GAAP") as follows: (1) Require equity investments to be measured at fair value with changes in fair value recognized in net income. (2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair

value. (3) Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. (4) Require public business entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes. (5) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This Update will be effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect the guidance to have a material impact on its financial statements.

The FASB issued ASU No. 2016-02, *"Leases (Topic 842)."* The amendments in this Update are to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. To meet that objective, the FASB is amending the *FASB Accounting Standards Codification* and creating Topic 842, Leases. Leasing is utilized by many entities. It is a means of gaining access to assets, of obtaining financing, and/or of reducing an entity's exposure to the full risks of asset ownership. The prevalence of leasing, therefore, means that it is important that users of financial statements have a complete and understandable picture of an entity's leasing activities. Previous lease accounting was criticized for failing to meet the needs of users of financial statements because it did not always provide a faithful representation of leasing transactions. In particular, it did not require lessees to recognize assets and liabilities arising from operating leases on the balance sheet. As a result, there had been long-standing request from many users of financial statements and others to change the accounting requirements so that lessees would be required to recognize the rights and obligations resulting from leases as assets and liabilities. This Update will be effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. At this time, the Company has not determined the impact of this Update on its financial statements.

The FASB issued ASU No. 2016-13, *"Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments."* Current GAAP requires an "incurred loss" methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. Users of financial statements expressed concern that current GAAP restricts the ability to record credit losses that are expected, but do not yet meet the "probable" threshold. The main objective of the Update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This Update will be effective for public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. At this time, the Company has not determined the impact of this Update on its financial statements.

The FASB issued ASU No. 2016-15, *"Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments."* This Update made the following changes that may affect the Company: (1) Debt Prepayment or Debt Extinguishment Costs: Cash payments for debt prepayment or debt extinguishment costs should be classified as cash flows for financing activities. (2) Proceeds from the Settlement of Bank-Owned Life Insurance Policies: Cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash flows from investing activities. The cash payments for premiums on bank-owned policies may be classified as cash flows for investing activities, operating activities, or a combination of investing and operating activities. The amendments in this Update will be effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company does not expect the guidance to have a material impact on its financial statements.

The FASB issued ASU No. 2017-08, *"Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities."* This Update shortens the amortization period for certain callable debt securities held at a premium to require such premiums to be amortized to the earliest call date unless applicable guidance related to certain pools of securities is applied to consider estimated prepayments. Under prior guidance, entities were generally required to amortize premiums on individual, non-pooled callable debt securities as a yield adjustment over the contractual life of the security. This Update does not change the accounting for callable debt securities held at a discount. This Update will be effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. At this time, the Company has not determined the impact of this Update on its financial statements.

The FASB issued ASU No. 2017-09, *"Compensation – Stock Compensation (Topic 718) – Scope of Modification Accounting."* This Update clarifies whether changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under this Update, an entity will not apply modification accounting to a share-based award if all of the following are the same immediately before and after the change: (i) the award's fair value, (ii) the award's vesting conditions and (iii) the award's classification as an equity or liability instrument. This Update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company does not expect the guidance to have a material impact on its financial statements.

The FASB issued ASU 2018-02, "*Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*." This Update provides financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. This Update is effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed guidance either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company has elected to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act in its financial statements for the period ending December 31, 2017. The amount of this reclassification in 2017 was $63 thousand.

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 $1.10 million both at December 31, 2017 and 2016. In addition, for the reserve maintenance period in effect at December 31, 2017 and 2016, the Company was required to maintain balances of $158 thousand and $67 thousand, respectively, 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, 2017 and 2016 are as follows:

Available-for-sale

December 31, 2017

(dollars in thousands)	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Fair Value*
Corporates:				
Due after five years through ten years	$1,700	$ 25	$ 6	$1,719
	1,700	25	6	1,719
States and political subdivisions:				
Due after five years through ten years	1,186	6	1	1,191
Due after ten years	2,155	13	3	2,165
	3,341	19	4	3,356
Small business administration:				
Due after ten years	1,798	-	45	1,753
Residential mortgage-backed debt securities	16,847	24	205	16,666
Equity securities	535	716	-	1,251
	$24,221	$784	$260	$24,745

December 31, 2016

(dollars in thousands)	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Fair Value*
Corporates:				
Due after five years through ten years	$1,000	$1	$-	$1,001
	1,000	1	-	1,001
States and political subdivisions:				
Due after five years through ten years	893	2	-	895
Due after ten years	2,912	5	18	2,899
	3,805	7	18	3,794
Small business administration:				
Due after ten years	2,099	-	62	2,037
Residential mortgage-backed debt securities	15,972	20	178	15,814
Equity securities	1,020	978	-	1,998
	$23,896	$1,006	$258	$24,644

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, 2017	*Continuous unrealized losses existing for less than 12 months*		*Continuous unrealized losses existing for 12 months and greater*		*Total*	
(dollars in thousands)	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*
Corporates	$ 694	$ 6	$ -	$ -	$ 694	$ 6
States and political subdivisions	1,198	4	-	-	1,198	4
Small business administration	-	-	1,753	45	1,753	45
Residential mortgage-backed debt securities	8,911	71	5,451	134	14,362	205
Total temporarily impaired securities	$10,803	$81	$7,204	$179	$18,007	$260

December 31, 2016	*Continuous unrealized losses existing for less than 12 months*		*Continuous unrealized losses existing for 12 months and greater*		*Total*	
(dollars in thousands)	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*
States and political subdivisions	$ 2,263	$ 18	$ -	$ -	$ 2,263	$ 18
Small business administration	2,037	62	-	-	2,037	62
Residential mortgage-backed debt securities	12,938	134	1,106	44	14,044	178
Total temporarily impaired securities	$17,238	$214	$1,106	$44	$18,344	$258

The bonds in an unrealized loss position at December 31, 2017 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) that 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 fair value. All of the states and political subdivisions securities owned by the Company are payable at par at maturity, while the remaining small business administration and residential mortgage-backed debt securities are amortizing securities.

The following table shows the temporarily impaired securities as of December 31, 2017. The ratings are from either Standard and Poor's or Moody's.

December 31, 2017 *(dollars in thousands)*	*# of securities*	*Ratings*	*Book value*
Small business administration	2	N/A	$ 1,753
Federal Home Mortgage Corporation	7	N/A	7,887
Federal National Mortgage Corporation	4	N/A	3,636
Government National Mortgage Corporation	2	N/A	2,839
Corporates	1	N/A	694
States and political subdivisions	1	Aa3	459
States and political subdivisions	1	A	739
Total			$18,007

Included in the investment portfolio at December 31, 2017 and 2016 are securities carried at $9.25 million and $9.41 million, respectively, which are pledged for public fund deposits, to secure repurchase agreements and for other purposes as required and permitted by law.

In 2017, gross gains of $416 thousand were realized from sales of investment securities available-for-sale with proceeds of $901 thousand, while in 2016; gross gains of $51 thousand were realized from sales of investment securities available-for-sale with proceeds of $1.79 million. There were no losses recognized on sale of investment securities available-for-sale in either 2017 or 2016.

Restricted Stock

The following table shows the amounts of restricted stock as of December 31, 2017 and 2016:

(dollars in thousands)	*2017*	*2016*
Federal Home Loan Bank of Atlanta	$1,602	$ 952
Federal Reserve Bank	661	631
Atlantic Community Bankers Bank	40	40
Community Bankers Bank	64	64
	$2,367	$1,687

Note 4. Loans and Allowance for Loan Losses:

Loans consist of the following at December 31, 2017 and 2016:

(dollars in thousands)	*2017*	*2016*
Real estate - construction and land development	$ 25,982	$ 24,601
Real estate - mortgage:		
Commercial properties	179,976	170,684
Residential properties	64,660	57,791
Total real estate - mortgage	244,636	228,475
Commercial and industrial	49,925	51,280
Consumer	1,613	1,886
Total loans	322,156	306,242
Less allowance for loan losses	(3,265)	(3,744)
Net loans	$318,891	$302,498

The loan categories in the table above include net deferred fees and costs of $462 thousand and $361 thousand as of December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016 the Company has $71.34 million and $62.91 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, 2017, the real estate loan portfolio constituted 84% of the total loan portfolio. This can be broken down further into the following categories: 8% construction and land development, 56% commercial real estate and 20% residential real estate loans, as a percent of total loans. The commercial real estate and construction and land development can be further broken down to 38% 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 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 1.40 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 15% of the loan portfolio at December 31, 2017. Loans in this category generally carry 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, 2017 and 2016:

2017	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
(dollars in thousands)						
Allowance for loan losses:						
Beginning balance	$186	$1,526	$351	$1,669	$12	$3,744
Charge-offs	(7)	(79)	(70)	(1,210)	(3)	(1,369)
Recoveries	49	4	15	177	-	245
Provisions	(27)	291	115	261	5	645
Ending balance	$201	$1,742	$411	$ 897	$14	$3,265
Ending balance: individually evaluated for impairment	$-	$-	$3	$38	$4	$45
Ending balance: collectively evaluated for impairment	$201	$1,742	$408	$859	$10	$3,220
Loans:						
Ending balance	$25,982	$179,976	$64,660	$49,925	$1,613	$322,156
Ending balance: individually evaluated for impairment	$-	$972	$726	$2,736	$35	$4,469
Ending balance: collectively evaluated for impairment	$25,982	$179,004	$63,934	$47,189	$1,578	$317,687

2016	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
(dollars in thousands)						
Allowance for loan losses:						
Beginning balance	$251	$1,551	$376	$ 872	$14	$3,064
Charge-offs	-	(37)	(44)	(154)	(1)	(236)
Recoveries	23	4	-	38	1	66
Provisions	(88)	8	19	913	(2)	850
Ending balance	$186	$1,526	$351	$1,669	$12	$3,744
Ending balance: individually evaluated for impairment	$-	$10	$2	$1,174	$1	$1,187
Ending balance: collectively evaluated for impairment	$186	$1,516	$349	$495	$11	$2,557
Loans:						
Ending balance	$24,601	$170,684	$57,791	$51,280	$1,886	$306,242
Ending balance: individually evaluated for impairment	$35	$2,315	$1,416	$5,384	$35	$9,185
Ending balance: collectively evaluated for impairment	$24,566	$168,369	$56,375	$45,896	$1,851	297,057

Credit quality indicators as of December 31, 2017 and 2016 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 at various times, 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 a continuing trend of 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 achieved in the future. Such credits should be recommended for charge-off.

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, 2017	Construction and Land Development	Commercial Real Estate	Commercial and Industrial
(dollars in thousands)			
Pass	$25,982	$173,392	$44,728
Special mention	-	4,063	2,235
Substandard	-	2,521	2,962
Total	$25,982	$179,976	$49,925

December 31, 2016	Construction and Land Development	Commercial Real Estate	Commercial and Industrial
(dollars in thousands)			
Pass	$24,279	$162,039	$43,662
Special mention	287	6,567	2,223
Substandard	35	2,078	5,395
Total	$24,601	$170,684	$51,280

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

December 31, 2017	Residential Real Estate	Consumer
(dollars in thousands)		
Pass	$62,398	$1,574
Special mention	1,250	20
Substandard	1,012	19
Total	$64,660	$1,613

December 31, 2016	Residential Real Estate	Consumer
(dollars in thousands)		
Pass	$54,983	$1,839
Special mention	1,102	24
Substandard	1,706	23
Total	$57,791	$1,886

Information on impaired loans for the years ended December 31, 2017 and 2016 are as follows:

2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
(dollars in thousands)					
With no related allowance recorded:					
Construction and land development	$ -	$ -	$-	$ 18	$ -
Commercial real estate	972	972	-	1,316	14
Residential real estate	676	676	-	1,023	16
Commercial and industrial	1,577	1,577	-	2,527	-
Consumer	-	-	-	6	-
Total	$3,225	$3,225	$-	$4,890	$30
With an allowance recorded:					
Construction and land development	$ -	$ -	$ -	$ -	$-
Commercial real estate	-	-	-	328	-
Residential real estate	50	50	3	48	3
Commercial and industrial	1,159	1,159	38	1,533	-
Consumer	35	35	4	29	2
Total	$1,244	$1,244	$45	$1,938	$5
Total					
Construction and land development	$ -	$ -	$ -	$ 18	$ -
Commercial real estate	972	972	-	1,644	14
Residential real estate	726	726	3	1,071	19
Commercial and industrial	2,736	2,736	38	4,060	-
Consumer	35	35	4	35	2
Grand Total	$4,469	$4,469	$45	$6,828	$35

2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
(dollars in thousands)					
With no related allowance recorded:					
Construction and land development	$ 35	$ 73	$-	$ 317	$ -
Commercial real estate	1,660	2,191	-	2,039	48
Residential real estate	1,370	1,370	-	1,250	17
Commercial and industrial	3,477	3,556	-	2,704	74
Consumer	12	12	-	6	1
Total	$6,554	$7,202	$-	$6,316	$140
With an allowance recorded:					
Construction and land development	$ -	$ -	$ -	$ -	$ -
Commercial real estate	655	655	10	458	30
Residential real estate	46	46	2	23	4
Commercial and industrial	1,907	1,907	1,174	2,819	-
Consumer	23	23	1	16	1
Total	$2,631	$2,631	$1,187	$3,316	$35
Total					
Construction and land development	$ 35	$ 73	$ -	$ 317	$ -
Commercial real estate	2,315	2,846	10	2,497	78
Residential real estate	1,416	1,416	2	1,273	21
Commercial and industrial	5,384	5,463	1,174	5,523	74
Consumer	35	35	1	22	2
Grand Total	$9,185	$9,833	$1,187	$9,632	$175

Age analysis tables of past due loans as of December 31, 2017 and 2016 are as follows:

December 31, 2017	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
(dollars in thousands)							
Construction and land development	$ -	$ -	$ -	$ -	$ 25,982	$ 25,982	$-
Commercial real estate	328	-	-	328	179,648	179,976	-
Residential real estate	86	72	-	158	64,502	64,660	-
Commercial and industrial	-	-	1,371	1,371	48,554	49,925	-
Consumer	-	-	-	-	1,613	1,613	-
Total	$414	$72	$1,371	$1,857	$320,299	$322,156	

December 31, 2016	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
(dollars in thousands)							
Construction and land development	$ -	$ 6	$ 29	$ 35	$ 24,566	$ 24,601	$-
Commercial real estate	656	-	-	656	170,028	170,684	-
Residential real estate	234	461	-	695	57,096	57,791	-
Commercial and industrial	13	-	332	345	50,935	51,280	-
Consumer	4	-	-	4	1,882	1,886	-
Total	$907	$467	$361	$1,735	$304,507	$306,242	$-

Information on performing and nonaccrual impaired loans as of December 31, 2017 and 2016 is as follows:

(dollars in thousands)	*December 31,* 2017	*December 31,* 2016
Impaired performing loans:		
Construction and land development	$ -	$ -
Commercial real estate	1	1,491
Residential real estate	-	138
Commercial and industrial	-	979
Consumer	-	-
Accruing troubled debt restructurings:		
Commercial real estate	231	-
Residential real estate	79	322
Commercial and industrial	-	48
Consumer	35	35
Total impaired performing loans	$346	$3,013
Impaired nonperforming loans:		
Nonaccrual loans:		
Construction and land development	$ -	$ 35
Commercial real estate	480	531
Residential real estate	395	396
Commercial and industrial	25	2,006
Nonaccrual troubled debt restructurings:		
Construction and land development	-	-
Commercial real estate	260	293
Residential real estate	252	560
Commercial and industrial	2,711	2,351
Total impaired nonperforming loans	$4,123	$6,172
Total impaired loans	$4,469	$9,185

Information on loans which became troubled debt restructurings during the years ended December 31, 2017 and 2016 is as follows:

2017	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
(dollars in thousands)			
Troubled debt restructurings:			
Commercial and industrial	5	$1,371	$1,371
Total	5	$1,371	$1,371

2016	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
(dollars in thousands)			
Troubled debt restructurings:			
Construction and land development	1	$46	$46
Commercial real estate	2	35	35
Total	3	$81	$81

The troubled debt restructured loans shown in the table for 2017 were modified during the year with the signing of a forbearance agreement adjusting the payment amounts. The troubled debt restructured loans shown in the table for 2016 were modified during the year with the granting of a payment extension.

There were two loans in the aggregate amount of $63 thousand that had been modified as troubled debt restructurings during the past twelve months that subsequently re-defaulted in 2017. There were no loans as of December 31, 2016 that had been modified as troubled debt restructurings during the past twelve months that subsequently re-defaulted in 2016.

At December 31, 2017 and 2016 there are no commitments to lend additional funds to any borrower whose loan terms have been modified in a troubled debt restructuring.

There were no foreclosed residential real estate properties at either December 31, 2017 or 2016.

Note 5. Bank Premises and Equipment:

Bank premises and equipment consisted of the following at December 31, 2017 and 2016:

(dollars in thousands)	*2017*	*2016*
Land	$ 2,683	$ 2,683
Buildings	5,786	3,442
Furniture and equipment	3,549	3,505
Leasehold improvements	1,359	1,359
	13,377	10,989
Less accumulated depreciation and amortization	(3,835)	(3,499)
	$ 9,542	$ 7,490

Depreciation and amortization charged to operations amounted to $497 thousand in 2017 and $448 thousand in 2016.

Note 6. Deposits:

Certificates of deposit and other time deposits issued in denominations of $250 thousand or more totaled $24.53 million and $23.03 million at December 31, 2017 and 2016, respectively, and are included in interest-bearing deposits in the consolidated balance sheet.

At December 31, 2017, the maturity distribution of certificates of deposit is as follows:

(dollars in thousands)	
Maturing in:	*Certificates of Deposit*
2018	$38,203
2019	18,173
2020	17,059
2021	5,855
2022	6,384
	$85,674

Interest on deposits for the years ended December 31, 2017 and 2016 consists of the following:

(dollars in thousands)	*2017*	*2016*
NOW accounts	$ 75	$ 54
Savings accounts	4	3
Money market accounts	288	279
Certificates of deposit $100,000 and over	527	450
Certificates of deposit under $100,000	356	286
	$1,250	$1,072

Note 7. Borrowings:

During 2017 and 2016, the Company had no sales of securities under agreements to repurchase the same securities.

Short-term borrowings:

(dollars in thousands)	*2017*	*2016*
Total outstanding at year-end	$4,200	$3,300
Average amount outstanding during the year	$4,192	$3,300
Maximum amount outstanding at any month-end	$4,200	$3,300
Weighted-average interest rate at year-end	4.18%	3.39%
Weighted-average interest rate during the year	3.91%	3.42%

The Company's unused lines of credit for short-term borrowings totaled $30.50 million and $31.40 million at December 31, 2017 and 2016, respectively. These include an unsecured line of credit from an unaffiliated financial institution for Bancorp in the amount of $2.50 million and $3.40 million at December 31, 2017 and 2016, respectively, and unsecured federal funds lines of credit from unaffiliated financial institutions for the Bank in an aggregate amount of $28.00 million both at December 31, 2017 and 2016.

FHLB advances:

(dollars in thousands)	*2017*	*2016*
Total outstanding at year-end	$29,700	$15,000
Average amount outstanding during the year	$17,554	$15,000
Maximum amount outstanding at any month-end	$29,700	$15,000
Weighted-average interest rate at year-end	1.58%	0.75%
Weighted-average interest rate during the year	1.13%	0.73%

The Company has a secured line of credit with the FHLB with a total available balance of $26.10 million and $36.75 million at December 31, 2017 and 2016, respectively, which is secured by a blanket lien on its 1-4 family residential mortgage loan portfolio and certain commercial real estate loans. The following table shows the outstanding borrowings under this credit facility at December 31, 2017 and 2016.

((dollars in thousands)		*December 31, 2017*	*December 31, 2016*
Maturity Date	Interest Rate		
March 31, 2017	0.59%		$ 5,000
June 9, 2017	0.76%		5,000
September 8, 2017	0.91%		5,000
March 6, 2018	1.19%	$ 4,900	
March 28, 2018	1.33%	5,000	
April 30, 2018	1.31%	4,900	
September 25, 2018	1.50%	4,900	
December 20, 2018	2.06%	10,000	
Total		$29,700	$15,000

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 is currently adjusted quarterly to 163 basis points over three-month LIBOR. On December 15, 2017, the most recent interest reset date; the interest rate was adjusted to 3.21849% for the period ending March 15, 2018. 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.

Trust preferred securities may be included in Tier 1 capital for regulatory capital adequacy purposes as an additional Tier I capital element, without limitation.

Note 9. Leasing Arrangements:

The Company leases branch and administrative office facilities under noncancellable operating lease arrangements whose maturity dates extend to March 2026. 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 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, 2017 is outlined below:

(dollars in thousands)

Years ending December 31	*Total*
2018	$ 247
2019	249
2020	250
2021	169
2022	56
Later years	191
	$1,162

Rental expense included in occupancy and equipment expenses amounted to $122 thousand in 2017 and $455 thousand in 2016. Rental expense in 2017 is net of $149 thousand of rental income resulting from the lease of space in the building housing the Company's banking center located at 2 North Market Street, Frederick, Maryland, which the Company acquired in 2017.

Note 10. Employee Benefit Plans:

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 has the discretion to make matching contributions of 100% of the employee's contributions up to 4% of the employee's salary. 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.

In 2017 and 2016, the Company made matching contributions of 100% of employee contributions up to 4% of salary. The Company expensed contributions to the 401(k) Plan in the amounts of $203 thousand in 2017 and $149 thousand in 2016.

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, 2017, there are 189,200 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 an option is 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, 2017 and 2016.

	Options Issued And Outstanding	*Weighted-Average Exercise Price*
Balance at January 1, 2016	141,235	$11.68
Granted	2,000	$23.00
Exercised	(15,915)	$11.27
Forfeited	(200)	$11.35
Balance at December 31, 2016	127,120	$12.20
Granted	-	-
Exercised	(1,200)	$11.35
Forfeited	(1,200)	$11.35
Balance at December 31, 2017	124,720	$12.22
Exercisable at December 31, 2017	123,920	$12.15

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 of 30% immediately, 30% after one year and 40% after two years. Stock-based compensation expense related to stock options for the years ended December 31, 2017 and 2016 was $(20) thousand and $12 thousand. As of December 31, 2017, there was no unrecognized compensation cost related to non-vested stock options.

The Company received $13 thousand and $180 thousand from the exercise of stock options in 2017 and 2016, respectively. The Company also recognized $28 thousand in excess tax benefits from equity-based awards in 2016, but none in 2017.

The weighted-average fair value of options granted in the year ended December 31, 2016 was $4.99 and was estimated at the date of grant, using the Black-Scholes Option Pricing Model with the following weighted-average assumptions. There were no options granted in 2017.

December 31,	*2016*
Risk free interest rate of return	1.75%
Expected option life (months)	60
Expected volatility	25%
Expected dividends	1.22%

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 Company's historical experience. 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 124,720 and 127,120 options outstanding as of December 31, 2017 and 2016, 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 $1.71 million and $1.25 million, respectively. The aggregate intrinsic value of the options exercised in 2017 and 2016 amounted to $14 thousand and $178 thousand, respectively.

At December 31, 2017 and 2016, the 124,720 and 127,120 options issued and outstanding, respectively, had exercise prices and weighted-average remaining contractual lives as follows:

December 31,	*2017*	*2016*
Exercisable options:		
Options outstanding	123,920	125,720
Weighted-average exercise price	$12.15	$12.08
Weighted-average remaining contractual life (months)	41	53
Unexercisable options:		
Options outstanding	800	1,400
Weighted-average exercise price	$23.00	$23.00
Weighted-average remaining contractual life (months)	99	11

Note 11. Income Taxes:

Significant components of the Company's deferred tax assets and liabilities at December 31, 2017 and 2016 were as follows:

(dollars in thousands)	*2017*	*2016*
Deferred tax assets:		
Allowance for loan losses	$ 741	$1,150
Stock-based compensation	45	59
Nonaccrual interest	204	243
Deferred rent	26	41
Other	52	76
Total deferred tax assets	1,068	1,569
Deferred tax liabilities:		
Unrealized gain on securities available for sale	(144)	(295)
Depreciation	(321)	(465)
Total deferred tax liabilities	(465)	(760)
Net deferred tax assets	$ 603	$ 809

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, 2017 and 2016 is as follows:

(dollars in thousands)	*2017*	*2016*
Income before income tax	3,492	$1,785
Tax rate	34%	34%
Income tax at statutory rate	1,187	607
Increases (decreases) in tax resulting from:		
Deferred tax adjustment for new corporate federal tax rate	231	-
Tax exempt interest income	(97)	(121)
Bank owned life insurance income	(72)	(76)
State income taxes, net of federal income tax benefit	173	93
Stock-based compensation	2	4
Other	18	21
Provision for income taxes	$1,442	$ 528

Significant components of the provision for income taxes for the years ended December 31, 2017 and 2016 are as follows:

(dollars in thousands)	*2017*	*2016*
Taxes currently payable:		
Federal	$ 914	$271
State	234	203
	1,148	474
Deferred tax (benefit) expense:		
Federal	306	8
State	(12)	46
	294	54
Total	$1,442	$528

Note 12. Noninterest Expenses:

Noninterest expenses included in the consolidated statements of income for the years ended December 31, 2017 and 2016 include the following:

(dollars in thousands)	*2017*	*2016*
Salaries	$ 5,684	$ 5,543
Stock-based compensation	(20)	12
Bonus	34	37
Deferred personnel costs	(281)	(229)
Payroll taxes	418	394
Employee insurance	492	497
Other employee benefits	245	199
Depreciation and amortization	497	447
Rent	122	455
Utilities	241	223
Repairs and maintenance	514	403
ATM expenses	121	115
Other occupancy and equipment expenses	224	237
Postage and supplies	82	89
Data processing	682	521
Advertising and promotion	566	604
FDIC insurance	228	241
Legal	31	22
Insurance	79	81
Consulting	100	43
Courier	18	21
Audit fees	188	228
Other	786	852
Total	$11,051	$11,035

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, 2017, the Bank was limited from paying dividends to Bancorp in excess of $4.27 million, and by the requirement to meet certain capital ratios. The Bank paid approximately $470 thousand and $440 thousand in dividends to Bancorp during 2017 and 2016, respectively.

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, 2017 and 2016.

Capital:

The Bank is 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 common equity, 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 Company and the Bank met all capital adequacy requirements to which they are subject as of December 31, 2017 and 2016.

As of December 31, 2017, 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 common equity risk-based, 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, 2017 and 2016 are presented in the following tables:

December 31, 2017	*Actual*		*For Capital Adequacy Purposes*		*Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions*	
(dollars in thousands)	*Amount*	Ratio	*Amount*	*Ratio*	*Amount*	*Ratio*
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Company	$32,241	8.72%	N/A	N/A	N/A	N/A
Bank	$41,244	11.19%	$16,585	4.50%	$23,957	6.50%
Total Capital (to Risk-Weighted Assets):						
Company	$41,506	11.23%	N/A	N/A	N/A	N/A
Bank	$44,509	12.08%	$29,485	8.00%	$36,856	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Company	$38,241	10.35%	N/A	N/A	N/A	N/A
Bank	$41,244	11.19%	$22,114	6.00%	$29,485	8.00%
Tier 1 Capital (to Average Assets):						
Company	$38,241	9.65%	N/A	N/A	N/A	N/A
Bank	$41,244	10.45%	$15,782	4.00%	$19,728	5.00%

December 31, 2016	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	*Amount*	Ratio	*Amount*	*Ratio*	*Amount*	*Ratio*
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Company	$30,708	8.66%	$15,965	4.50%	N/A	N/A
Bank	$38,712	10.95%	$15,910	4.50%	$22,982	6.50%
Total Capital (to Risk-Weighted Assets):						
Company	$40,452	11.40%	$28,381	8.00%	N/A	N/A
Bank	$42,456	12.01%	$28,285	8.00%	$35,356	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Company	$36,708	10.35%	$21,286	6.00%	N/A	N/A
Bank	$38,712	10.95%	$21,214	6.00%	$28,285	8.00%
Tier 1 Capital (to Average Assets):						
Company	$36,708	9.66%	$15,202	4.00%	N/A	N/A
Bank	$38,712	10.23%	$15,130	4.00%	$18,913	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.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, using the present value of expected cash flows, the loan's observable market price or the fair value of the collateral (less cost to sell) if the loans are collateral dependent. 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. Discounts applied to appraisals have been in the range of 0% to 50%. 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.

Foreclosed properties are adjusted to fair value upon transfer of the loans to foreclosed properties. Subsequently, foreclosed properties are carried at the lower of carrying value or fair value. The estimated fair value for foreclosed properties included in Level 3 is determined by independent market based appraisals and other available market information. Discounts applied to appraisals have predominantly been in the range of 0% to 50%; however, in certain cases have ranged up to 75%, which include estimated costs to sell or other reductions based on market expectations or an executed sales contract. If fair value of the collateral deteriorates subsequent to initial recognition, the Company records the foreclosed properties as a nonrecurring Level 3 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

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, 2017 and 2016.

December 31, 2017	*Carrying Value (Fair Value)*	*Quoted Prices (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
(dollars in thousands)				
Securities available for sale:				
Corporates	$ 1,719	$ -	$1,719	$-
States and political subdivisions	3,356	-	3,356	-
Small business administration	1,753	-	1,753	-
Residential mortgage-backed debt	16,666	-	16,666	-
Equity securities	1,251	1,240	11	-
Total	$24,745	$1,240	$23,505	$-

December 31, 2016	*Carrying Value (Fair Value)*	*Quoted Prices (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
(dollars in thousands)				
Securities available for sale:				
Corporates	$ 1,001	$ -	$ 1,001	$-
States and political subdivisions	3,794	-	3,794	-
Small business administration	2,037	-	2,037	-
Residential mortgage-backed debt	15,814	-	15,814	-
Equity securities	1,998	1,948	50	-
Total	$24,644	$1,948	$22,696	$-

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, 2017 and 2016.

December 31, 2017	*Carrying Value (Fair Value)*	*Quoted Prices (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
(dollars in thousands)				
Impaired loans:				
Construction and land development	$ -	$-	$-	$ -
Commercial real estate	972	-	-	972
Residential real estate	723	-	-	723
Commercial and industrial	2,698	-	-	2,698
Consumer	31	-	-	31
Total impaired loans	$4,424	$-	$-	$4,424
Foreclosed properties:				
Commercial real estate	$1,264	$-	$-	$1,264
Total foreclosed properties	$1,264	$-	$-	$1,264

December 31, 2016	*Carrying Value (Fair Value)*	*Quoted Prices (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
(dollars in thousands)				
Impaired loans:				
Construction and land development	$ 35	$-	$-	$ 35
Commercial real estate	2,305	-	-	2,305
Residential real estate	1,414	-	-	1,414
Commercial and industrial	4,210	-	-	4,210
Consumer	34	-	-	34
Total impaired loans	$7,998			$7,998
Foreclosed properties:				
Commercial real estate	$706	$-	$-	$706
Residential real estate	160	-	-	160
Total foreclosed properties	$866	$-	$-	$866

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)	*Carrying Amount*	*Fair Value*	*Quoted Prices (Level1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
December 31, 2017					
FINANCIAL ASSETS					
Cash and cash equivalents	$ 37,359	$ 37,359	$37,359	$ -	$ -
Investment securities available for sale	24,745	24,745	-	24,745	-
Restricted stock	2,367	2,367	-	2,367	-
Net loans	318,891	321,334	-	-	321,334
FINANCIAL LIABILITIES					
Deposits	$332,005	$329,866	$-	$-	$329,866
Short-term borrowings	4,200	4,200	-	-	4,200
FHLB advances	29,700	29,695	-	-	29,695
Junior subordinated debentures	6,186	6,133	-	-	6,133
December 31, 2016					
FINANCIAL ASSETS					
Cash and cash equivalents	$ 29,674	$ 29,674	$29,674	$ -	$ -
Investment securities available for sale	24,644	24,644	-	24,644	-
Restricted stock	1,687	1,687	-	1,687	-
Net loans	302,498	309,992	-	-	309,992
FINANCIAL LIABILITIES					
Deposits	$321,952	$324,780	$-	$-	$324,780
Short-term borrowings	3,300	3,300	-	-	3,300
FHLB advances	15,000	14,999	-	-	14,999
Junior subordinated debentures	6,186	6,134	-	-	6,134

The following methods and assumptions were used to estimate the fair value disclosures for financial instruments as of December 31, 2017 and 2016:

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.

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.

FHLB Advances:

The fair value of the FHLB advances 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.

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 2017 and 2016 is as follows:

(d*ollars in thousands*)	
Balance, December 31, 2015	$5,057
New loans	164
Repayments	(997)
Balance, December 31, 2016	4,224
New loans	5,525
Repayments	(847)
Balance, December 31, 2017	$8,902

Deposits:

The deposits from officers and directors of the Company totaled $3.33 million and $3.25 million at December 31, 2017 and 2016, respectively.

Lease agreement:

The Company entered into a lease in July 2011 for approximately 10,521 square feet of office space owned by a limited liability company of which two directors are members. The lease term commenced on July 11, 2011 and expired on July 10, 2016 where the lease was subsequently renewed until July 10, 2021. In September 2014, the lease was amended to approximately 11,367 square feet. Under this lease, monthly payments for the period September 1, 2014 to July 10, 2016 are $15,762 and from July 11, 2016 through December 31, 2017 the monthly payments are $16,387. The total payments are $196,644 for 2017 and $192,269 for 2016.

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 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, 2017 and 2016 were as follows:

	2017	*2016*
(dollars in thousands)	*Contractual Amount*	*Contractual Amount*
Financial instruments whose notional or contract amounts represent credit risk:		
Commitments to extend credit	$64,444	$59,020
Standby letters of credit	8,563	6,808
Total	$73,007	$65,828

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. Components of Other Comprehensive Income:

The following table presents the components of other comprehensive income (loss) for the years ended December 31, 2017 and 2016.

	Years Ended December 31,					
	2017			*2016*		
(dollars in thousands)	*Before Tax*	*Tax Effect*	*Net of Tax*	*Before Tax*	*Tax Effect*	*Net of Tax*
Changes in net unrealized gains on securities available for sale	$ 191	$ 76	$ 115	$951	$375	$576
Reclassification adjustment for gains realized	(416)	(165)	(251)	(51)	(20)	(31)
Other comprehensive (loss) income	$(225)	$ (89)	$(136)	$900	$355	$545

The following table presents the changes in each component of accumulated other comprehensive income, net of tax, for the years ended December 31, 2017 and 2016.

(dollars in thousands)	*Securities Available for Sale*	*Accumulated Other Comprehensive Income (Loss)*
Balance at January 1, 2016	$ (92)	$ (92)
Other comprehensive loss before reclassifications	576	576
Amounts reclassified from accumulated other comprehensive income[1]	(31)	(31)
Balance at December 31, 2016	453	453
Reclassification of remaining tax effects on deferred tax assets on securities available for sale	63	63
Other comprehensive income before reclassifications	115	115
Amounts reclassified from accumulated other comprehensive income[1]	(251)	(251)
Balance at December 31, 2017	$ 380	$ 380

[1] Included in securities gains on consolidated statements of income

Note 19. Frederick County Bancorp, Inc. (Parent Company) Condensed Financial Information:

Balance Sheets	*December 31,*	
(dollars in thousands)	*2017*	*2016*
Assets		
Cash	$ 276	$ 278
Receivable from subsidiaries	188	129
Investment securities available-for-sale at fair value	1,251	1,998
Investment in banking subsidiary	41,104	38,573
Investment in other subsidiaries	294	294
Other assets	245	2
Total assets	$43,358	$41,274
Liabilities and Shareholders' Equity		
Payable to subsidiaries	$ -	$ 101
Short-term borrowings	4,200	3,300
Junior subordinated debentures	6,186	6,186
Other liabilities	351	526
Total liabilities	10,737	10,113
Common stock	15	15
Additional paid-in capital	15,397	15,404
Retained earnings	16,829	15,289
Accumulated other comprehensive income	380	453
Total shareholders' equity	32,621	31,161
Total liabilities and shareholders' equity	$43,358	$41,274

Statements of Income	*Years Ended December 31,*	
(dollars in thousands)	*2017*	*2016*
Dividend income from subsidiary bank	$ 470	$ 440
Dividend income from trust	5	4
Dividend income from other subsidiary	-	1,375
Dividend income	24	12
Securities gains	416	-
Total income	915	1,831
Expenses:		
Interest on short-term borrowings	165	113
Interest on junior subordinated debentures	177	145
Other	124	61
Total expenses	466	319
Income before provision for income taxes and equity in undistributed earnings of subsidiaries	449	1,512
Provision for income tax benefits	(92)	(103)
Income before equity in undistributed earnings of subsidiaries	541	1,615
Equity in undistributed earnings of subsidiaries	1,509	(358)
Net income	$2,050	$1,257

Statements of Cash Flows	*Years Ended December 31,*	
(dollars in thousands)	*2017*	*2016*
Cash flows from operating activities:		
Net income	$2,050	$1,257
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(1,509)	358
Deferred income tax benefits	(84)	-
Securities gains	(416)	-
Compensation expense from stock option transactions	(20)	12
Excess tax benefit from stock-based awards	-	(28)
(Increase) decrease in receivable from subsidiaries	(59)	138
(Increase) decrease in other assets	(244)	25
(Decrease) increase in payable to subsidiaries	(101)	9
Increase (decrease) in other liabilities	14	(178)
Net cash (used in) provided by operating activities	(369)	1,593
Cash flow from investing activities:		
Proceeds from sale of investment securities available for sale	901	-
Investment in banking subsidiary	(1,000)	(1,720)
Net cash used in investing activities	(99)	(1,720)
Cash flows from financing activities:		
Net increase in short-term borrowings	900	-
Proceeds from issuance of common stock	13	180
Dividends paid on common stock	(447)	(417)
Excess tax benefit from stock-based awards	-	28
Net cash provided by (used in) financing activities	466	(209)
Net decrease in cash	(2)	(336)
Beginning cash	278	614
Ending cash	$276	$ 278

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, 2017, one market maker offered to make a market in the common stock in the OTC Pink 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 sales prices for the common stock, and the amount of dividends declared per share, during each calendar quarter for 2017 and 2016. 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, 2017, there were 1,493,044 shares of common stock outstanding, held by approximately 574 shareholders of record.

	2017			*2016*		
Quarter	High Sales	Low Sales	Dividends	High Sales	Low Sales	Dividends
First	$23.75	$21.46	$0.07	$23.75	$21.10	$0.07
Second	$24.15	$23.00	$0.07	$23.00	$19.10	$0.07
Third	$26.00	$23.60	$0.00	$26.50	$18.95	$0.07
Fourth	$26.50	$24.50	$0.16	$22.00	$19.00	$0.07

Dividends. During 2017, Bancorp paid $477 thousand in dividends to its common shareholders and the Bank paid approximately $470 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.

Annual Meeting of Shareholders

Tuesday, April 24, 2018 - 7:00 p.m.
Dutch's Daughter
581 Himes Avenue
Frederick, MD 21703

Market Maker:
FIG Partners
1175 Peachtree St., N.E.
100 Colony Square, Suite 2250
Atlanta, GA 30361

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1-800-522-6645

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www.computershare.com

A copy of the annual report is available without charge upon written request to:

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