FIRST MARINER BANCORP
Form 10-K
April 01, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the fiscal year ended December 31, 2012.

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from
Commission file number 0-21815

FIRST MARINER BANCORP

(Exact name of registrant as specified in its charter)

Maryland (State of incorporation)	**52-1834860** (IRS Employer Identification Number)
1501 S. Clinton Street, Baltimore, MD (Address of principal executive offices)	**21224** (zip code)

410-342-2600
(Telephone number)

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

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

Title of Each Class
Common Stock, par value $0.05 per share

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports, and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

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

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $9.0 million.

The number of shares of common stock outstanding as of March 15, 2013 was 18,860,482 shares.

Documents incorporated by reference: Portions of the Proxy Statement for the 2013 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K.

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FIRST MARINER BANCORP

Annual Report on Form 10-K

December 31, 2012

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of our statements contained in, or incorporated by reference into, this Annual Report on Form 10-K are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of invoking these safe harbor provisions. Forward-looking statements are not guarantees of performance or results. When we use words like "may," "plan," "contemplate," "anticipate," "believe," "intend," "continue," "expect," "project," "predict," "estimate," "target," "could," "is likely," "should," "would," "will," and similar expressions, you should consider them as identifying forward-looking statements, although we may use other phrasing. These forward-looking statements involve risks and uncertainties and are based on our beliefs and assumptions and on the information available to us at the time that these disclosures were prepared. These forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors, including, but not limited to, the following:

- our ability to successfully implement our liquidity contingency plan and meet our liquidity needs;
- a reduction in the value of certain assets held by us;
- a reduction in the value of the collateral for loans made by us, especially real estate, which, in turn would likely reduce our customers' borrowing power and the value of assets and collateral associated with our existing loans;
- increased loan delinquencies and/or an escalation in problem assets and foreclosures;
- the failure of assumptions underlying the establishment of our allowance for loan losses that may prove to be materially incorrect or may not be borne out by subsequent events;
- our ability to continue to operate as a going concern;
- our ability to realize the benefits from our cost saving initiatives;
- our ability to meet our interest payment obligations on our junior subordinated deferrable interest debentures upon expiration of the deferral period in 2013;
- our ability to raise sufficient capital to comply with the requirements of our regulators and for continued support of operations;
- the imposition of additional enforcement actions by bank regulatory authorities upon First Mariner Bank or First Mariner Bancorp;
- our ability to successfully implement our plan to reduce First Mariner Bank's risk exposure to problem assets;
- our ability to retain key employees;

our ability to effectively manage market risk, credit risk, and operational risk;

unanticipated regulatory or judicial proceedings;

the success and timing of our business strategies and our ability to effectively carry out our business and capital plans;

the effect of any mergers, acquisitions, or other transactions to which we or our subsidiary may from time to time be a party;

the risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities, and interest-sensitive assets and liabilities;

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- the effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the Securities and Exchange Commission, the Financial Accounting Standards Board, or other accounting standards setters;
- adverse changes in the securities' markets;
- the effects of competition from other commercial banks, thrifts, mortgage-banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds, and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally, and internationally, together with competitors offering banking products and services by mail, telephone, and the Internet;
- costs and potential disruption or interruption of operations due to cyber-security incidents;
- a decline in demand for our products and services;
- an inability to attract and retain deposits;
- the timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- changes in consumer spending and savings habits;
- the strength of the United States economy in general, the strength of the local economies in which we conduct operations, and the unfavorable effects of future economic conditions, including inflation, recession, or decreases in real estate values;
- geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;
- the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve Board, inflation, interest rate, market, and monetary fluctuations;
- our ability to continue to realize income through our mortgage-banking operations; and
- other risks as described in this Annual Report on Form 10-K.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks, and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, please read the "Risk Factors" in Item 1A of Part I of this Annual Report on Form 10-K. Any forward-looking statement speaks only as of the date which such statement was made, and, except as required by law, we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

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PART I

ITEM 1 BUSINESS

General

First Mariner Bancorp ("First Mariner") is a bank holding company whose business is conducted primarily through its wholly owned operating subsidiary, First Mariner Bank (the "Bank"). First Mariner was established in 1995 and has total assets in excess of $1.3 billion as of December 31, 2012. Our executive offices are located in the Canton area of Baltimore City at 1501 South Clinton Street, Baltimore, Maryland 21224. Our telephone number is (410) 342-2600.

We maintain the following Internet sites: www.1stmarinerbank.com; www.1stmarinerbancorp.com; www.1stmarinermortgage.com; and www.vamortgage.com. Information on these websites is not part of, and is not incorporated herein by reference to, this Annual Report on Form 10-K. Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports are available, free of charge, in the investor relations section of our Internet site at www.1stmarinerbancorp.com as soon as reasonably practicable after we have filed them with the Securities and Exchange Commission (the "SEC").

The Bank is currently our only operating subsidiary, with assets exceeding $1.3 billion as of December 31, 2012, and is the largest bank headquartered in Baltimore, Maryland. The Bank was formed in 1995 through the merger of several small financial institutions. The Bank's primary market area for its core banking operations, which consist of traditional commercial and consumer lending, as well as retail and commercial deposit operations, is central Maryland, as well as portions of Maryland's eastern shore. First Mariner Bank is an independent community bank, and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC").

The Bank is engaged in the general commercial banking business, with particular attention and emphasis on the needs of individuals and small to mid-sized businesses, and delivers a wide range of financial products and services that are offered by many larger competitors. Products and services include traditional deposit products, a variety of consumer and commercial loans, residential and commercial mortgage and construction loans, money transfer services, nondeposit investment products, and mobile and Internet banking and similar services. Most importantly, the Bank provides customers with access to local Bank officers who are empowered to act with flexibility to meet customers' needs in an effort to foster and develop long-term loan and deposit relationships.

First Mariner Mortgage, a division of the Bank, engages in mortgage-banking activities, providing mortgages and associated products to customers and selling most of those mortgages into the secondary market. First Mariner Mortgage has offices in Maryland, Delaware, Virginia, and North Carolina. See Item 7 in Part II of this Annual Report on Form 10-K and Note 19 to the Consolidated Financial Statements for more detailed information on the results of our mortgage-banking operations.

We do not conduct any foreign operations.

We operate in two business segments commercial and consumer banking and mortgage-banking. Financial information related to our operations in these segments for each of the three years ended December 31, 2012 is provided in Note 19 to our Consolidated Financial Statements included in Item 8 of Part II of this Annual Report on Form 10-K.

Our Business Strategy

We are currently focused on improving earnings, liquidity, capital adequacy, and controlling asset growth. In order to achieve our objectives, our strategy is to:

- strengthen the capital position of the Company and the Bank;

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- reduce our long-term debt;
- aggressively improve the quality of assets currently in our portfolio;
- adhere to rigorous credit standards in the origination of new loans;
- reduce our controllable operating expenses to improve our efficiency ratios;
- work towards obtaining termination of Regulatory Enforcement Actions (see discussions in Item 1A "Risk Factors" later in Part I of this Annual Report on Form 10-K);
- review our branch performance to evaluate possible consolidations or relocations that may increase our efficiency;
- cross-sell our products and services to our existing customers to leverage relationships and enhance our profitability;
- capitalize on our personal relationship approach that we believe differentiates us from our larger competitors;
- provide our customers with access to local executives who make key credit and other decisions;
- maximize mortgage-banking opportunities;
- pursue commercial lending opportunities with small to mid-sized businesses that are underserved by our larger competitors; and
- develop innovative financial products and services to generate additional sources of revenue.

Financial Services We Provide

Commercial Banking

Our commercial loan unit focuses on loan originations from small and mid-sized businesses (generally up to $20.0 million in annual sales) and such loans may be accompanied by significant related deposits. Our commercial loan products include commercial mortgage loans for the purchase or refinance of commercial properties; residential and commercial real estate construction and development loans; working capital loans and lines of credit; demand, term, and time loans; and equipment, inventory, and accounts receivable financing. We also offer an array of cash management services and deposit products to our commercial customers, including computerized on-line banking and remote deposit.

Retail Banking

Our retail banking activities emphasize consumer deposit and checking accounts. We offer an extensive range of services to meet the varied needs of our customers of all age demographics. In addition to traditional banking products and services, we offer contemporary products and services, such as debit cards, mutual funds, annuities, insurance products, Internet banking, electronic bill payment, mobile banking, and personal financial management services. Our consumer loan products include home equity lines of credit, fixed-rate second mortgages, new and used auto loans, new and used boat loans, overdraft protection, and unsecured personal credit lines.

Mortgage-Banking

Our mortgage-banking business is structured to provide a source of fee income largely from the process of originating residential mortgage loans for sale in the secondary market, as well as the origination of loans to be held in our loan portfolio. Mortgage-banking products include Federal

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Housing Administration ("FHA") and the federal Veterans Administration ("VA") loans, conventional and nonconforming first- and second-lien mortgages, and construction and permanent financing.

Our Lending Activities

Loan Portfolio Composition

At December 31, 2012, our loan portfolio totaled $610.4 million, representing 44.3% of our total assets of $1.4 billion. The majority of our lending activity is in the Mid-Atlantic region and our loans are generally secured by residential and commercial real estate. At December 31, 2012, approximately 89% of our total loans were secured by real estate.

Commercial Loans

The Bank originates a variety of loans for business purposes. The majority of our commercial loans are secured. The Bank makes loans to provide working capital to businesses in the form of lines of credit, which may be secured by real estate, accounts receivable, inventory, equipment, or other assets. The financial condition and cash flow of our commercial borrowers are closely monitored by the submission of corporate financial statements, personal financial statements, and income tax returns. The frequency of submissions of required financial information depends on the size and complexity of the credit and the collateral that secures our loan. It is our general policy to obtain personal guarantees from the principals of our commercial loan borrowers.

Commercial Mortgage Loans

The Bank originates mortgage loans secured by commercial real estate. These loans are primarily secured by office buildings, retail buildings, warehouses, and general-purpose business space. Although terms may vary, these commercial mortgage loans generally have maturities of 10 years or less. It is our general policy to obtain personal guarantees from the principals of the borrowers and assignments of all leases related to the collateral.

Commercial and Consumer Construction Loans

The Bank provides interim real estate acquisition, development, and construction loans to builders, developers, and persons who will ultimately occupy their single-family dwellings. These loans are made within the Federal regulatory guidelines for maximum loan-to-value ("LTV") ratios. Generally, residential construction loans are made for up to 80% of the appraised value of the property for both individuals and developers. Residential construction loans to developers may be made for over 80% of the appraised value of the property with additional credit enhancements, such as additional collateral. Commercial real estate construction loans are generally made for 75% or less of the appraised value of the property. Development loans, made to improve raw land into lots on which structures may be built, are generally made for 75% or less of the appraised value of the property. The Bank's real estate development and construction loan funds are disbursed periodically at pre-specified stages of completion. We carefully monitor these loans with on-site inspections and control of disbursements. The Bank's real estate development and construction loans are typical debt obligations of the borrowers and do not provide for our participation in residual profits or losses of the projects or involve equity positions through partnerships, joint ventures, or other similar structures.

Loans to individuals for the construction of their primary residences are typically secured by the property under construction, frequently include additional collateral (such as a second mortgage on the borrower's present home), and commonly have maturities of nine to twelve months.

Loans to residential builders for the construction of residential homes require binding sales contracts on the property and pre-qualification of the prospective buyers for permanent mortgage

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financing. Development loans are made only to developers with a proven track record. Generally, these loans are extended only when the borrower provides evidence that the lots under development will be sold to builders satisfactory to us.

The Bank secures development and construction loans with the properties under development or construction and we typically obtain personal guarantees from the principals. Further, to assure that we do not place reliance solely in the value of the underlying property, we consider the financial condition and reputation of the borrower and any guarantors, the amount of the borrowers' equity in the project, independent appraisals, costs estimates, and preconstruction sales information. We have significantly limited our development lending activities over the past five years.

Residential Mortgage Loans

The Bank originates adjustable- and fixed-rate residential mortgage loans. These mortgage loans are generally originated under terms, conditions, and documentation acceptable to the secondary mortgage market. The Bank will place some of these loans into our portfolio, although the vast majority are ultimately sold to investors.

Consumer Loans

The Bank offers a variety of consumer loans, typically secured by residential real estate or personal property, including automobiles and boats. Our home equity loans (closed-end and lines of credit) are typically made up to 70% to 80% of the appraised value, less the amount of any existing prior liens on the property and generally have maximum terms of 15 years. The interest rates on our closed-end home equity loans are fixed, while interest rates on our home equity lines of credit are variable.

Community Reinvestment Act ("CRA")

We have a strong commitment to our responsibilities under the federal CRA and actively search for opportunities to meet the development needs of all members of the communities we serve, including persons of low to moderate income in a manner consistent with safe and sound banking practices. We currently fulfill this commitment primarily by participating in loan programs sponsored or guaranteed by the FHA, the VA, the federally funded Neighborhood Stabilization Program, the U.S. Department of Agriculture Rural Development Loans Program, the Federal Home Loan Bank of Atlanta ("FHLB") Closing Cost Assistance Program, the Section 8 to Home-Ownership Program, and the Settlement Expense Loan Program.

See Item 7 of Part II of this Annual Report on Form 10-K for more detailed information concerning our loan portfolio, the individual portfolio segments, and their effect on 2012 operations.

Our Credit Administration Process

Our lending activities are subject to written policies approved by the Bank's Board of Directors to ensure proper management of credit risk. We make loans that are subject to a well-defined credit process that includes credit evaluation of borrowers, risk-rating of credits, establishment of lending limits and application of lending procedures, including the holding of adequate collateral and the maintenance of compensating balances, as well as procedures for on-going identification and management of credit deterioration. We conduct regular portfolio reviews to identify potential underperforming credits, estimate loss exposure, geographic and industry concentrations, and to ascertain compliance with our policies. For significant problem loans, we review and evaluate the financial strengths of our borrower and any guarantor, the related collateral, and the effects of economic conditions.

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The loan committee of the Bank's Board of Directors is authorized to approve loans up to the Bank's legal lending limit, which is approximately $9.4 million as of December 31, 2012. We have established an in-house limit of $5.0 million, which is reviewed periodically by the Board of Directors, but we do have loans to a limited number of customers in excess of that amount.

We generally do not make loans to be held in our loan portfolio outside our market area unless the borrower has an established relationship with us and conducts its principal business operations within our market area. Consequently, we, and our borrowers, are affected by the economic conditions prevailing in our market area. Approximately 26% of our residential real estate development and construction loan portfolio consisted of loans to Maryland customers and the remaining 74% consisted of loans to customers in the surrounding states and the District of Columbia. Approximately 84% of our commercial loan portfolio (commercial, commercial mortgage, and commercial construction) consisted of loans to Maryland customers with an additional 14% consisting of loans to customers in the surrounding states and the District of Columbia. Commercial and commercial real estate loans to customers in other states in the country amounted to approximately 2% of our portfolio.

Market

We consider our core market area to be the communities within the Baltimore/Washington corridor, particularly Baltimore City and the Maryland counties of Baltimore, Anne Arundel, Carroll, Harford, and Howard, as well as the eastern shore of Maryland. Lending activities are broader and include areas outside of our core market area such as other Maryland counties, the District of Columbia, and certain markets in contiguous states, as well as certain regional and national markets.

Our Competition

Banking

We operate in a highly competitive environment, competing for deposits and loans with commercial banks, thrifts, credit unions, mortgage companies, finance companies, Internet-based financial companies, and other financial entities. Our principal competitors include other community commercial banks and larger financial institutions with branches in our market area. Numerous mergers and consolidations involving financial entities in our market area have required us to compete with banks and finance companies with greater resources. Additionally, certain financial institutions received various amounts of government financial assistance in accordance with legislation passed in late 2008, giving those institutions greater resources with which to compete in our market. See "Supervision and Regulation" later in this section for further information on government legislation.

The primary factors we face in competing for deposits are interest rates, personalized service, the quality and range of financial services, convenience of office locations, and office hours. Competition for deposits comes primarily from other commercial banks, savings associations, credit unions, money market funds, Internet based banks, and other investment alternatives. The primary factors in competing for loans are interest rates, loan origination fees, the quality and range of lending services, responsiveness, and personalized service. Competition for loans comes primarily from other commercial banks, savings associations, mortgage-banking firms (see discussion on mortgage-banking competition below), credit unions, finance companies, and other financial intermediaries. Many of the financial institutions operating in our market area offer certain services such as trust and international banking, which we do not offer, and have greater financial resources or have substantially higher lending limits.

To compete with other financial services providers, we principally rely upon local promotional activities, personal relationships established by our officers, directors, and employees with our customers, and specialized services tailored to meet our customers' needs. In those instances where we are unable to accommodate a customer's needs, we will arrange for those services to be provided by other financial institutions with which we have a relationship.

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Current banking laws facilitate interstate branching and merger activity among banks. This may result in an even greater degree of competition in the banking industry and we may be brought into competition with institutions with which we do not currently compete. As a result, intense competition in our market area may be expected to continue for the foreseeable future.

Mortgage-banking

Our mortgage-banking division also operates in an extremely competitive environment where we compete primarily with mortgage-banking divisions of other financial institutions, which may be larger than we are and have greater resources. Additionally, competition in the mortgage-banking industry comes from the continuing evolution of the secondary mortgage market, the proliferation of mortgage products, increasing interest rate volatility, compounded by homeowners' increasing tendency to refinance their mortgages as the refinance process becomes more efficient and cost effective. These swings in mortgage origination volume have placed significant operational and financial pressures on mortgage lenders.

To compete effectively in this environment, we maintain a very high level of operational, technological, and managerial expertise, consistently offer a wide selection of mortgage loans through all marketing channels on a regional scale, provide high-quality service, and price our mortgage loans at competitive rates.

Supervision and Regulation

General

First Mariner and the Bank are extensively regulated under federal and state law. As a registered bank holding company, First Mariner is subject to supervision and examination by and reporting to the Federal Reserve Board ("FRB" or "Federal Reserve").

The Bank is a member of the FHLB System and, with respect to deposit insurance, of the Deposit Insurance Fund ("DIF") managed by the FDIC. The Bank must file reports with the Maryland Commissioner of Financial Regulation ("Commissioner") and the FDIC concerning its activities and financial condition and obtain regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other banks. The Commissioner and/or the FDIC conduct periodic examinations to test the Bank's safety and soundness and compliance with various regulatory requirements. This regulation and supervision is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the Commissioner, the FDIC, or other legislative bodies, could have a material adverse impact on First Mariner, the Bank, and their operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2011 (the "Dodd-Frank Act") made extensive changes in the regulation of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on First Mariner and the Bank. For example, the Dodd-Frank Act created a new Consumer Financial Protection Bureau ("the "Bureau") as an independent bureau of the FRB. The Bureau assumed

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responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations and has authority to impose new requirements. However, institutions of less than $10 billion in assets, such as the Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their primary regulator, although the Bureau will have back-up authority to examine and enforce consumer protection laws against all institutions, including institutions with less than $10 billion in assets.

Certain regulatory requirements applicable to First Mariner and the Bank, including some of the changes made by the Dodd-Frank Act, are referred to below or elsewhere in this Annual Report on Form 10-K. The summary of statutory provisions and regulations set forth below or elsewhere does not purport to be a complete description of such statutes and regulations and their effects on First Mariner and the Bank.

Regulation of First Mariner

General

First Mariner, as the sole shareholder of the Bank, is a bank holding company and is registered as such with the FRB. Bank holding companies are subject to comprehensive regulation and examination by the FRB under the Bank Holding Company Act of 1956, as amended (the "BHCA"), and the regulations of the FRB. The FRB also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, issue cease and desist or removal orders, and require that a holding company divest subsidiaries. In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices. First Mariner has entered into a written agreement with the FRB. See Item 1A "Risk Factors" later in Part I of this Annual Report on Form 10-K for additional information on the agreement with the FRB. See also "Capital Resources" in Item 7 of Part II of this Annual Report on Form 10-K.

Under the BHCA, a bank holding company must obtain Federal Reserve approval before: (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank or bank holding company; or (iii) merging or consolidating with another bank holding company. In evaluating such applications, the FRB considers a variety of financial, managerial, and competitive factors and the convenience and needs of the communities involved.

The BHCA also prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing, or controlling banks or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain nonbanking activities which, by statute or by FRB regulation or order, have been identified as activities closely related to the business of banking or managing or controlling banks. The list of activities includes, among others, operating a savings association, mortgage company, finance company, credit card company, or factoring company; performing certain data processing operations; providing certain investment and financial advice; real estate and personal property appraising; providing tax planning and preparation services; and, subject to certain limitations, providing securities brokerage services for customers.

Dividends

The FRB has issued a policy statement on the payment of cash dividends by bank holding companies that expresses the FRB's view that a bank holding company should pay cash dividends only

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to the extent that the company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the company's capital needs, asset quality, and overall financial condition. The FRB has indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the Federal Reserve pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the FRB may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized." See "Regulation of the Bank Prompt Corrective Regulatory Action" later in this section.

Capital Requirements

The Dodd-Frank Act requires the FRB to issue consolidated regulatory capital requirements for bank holding companies that are at least as stringent as those applicable to insured depository institutions. Such regulations, when finalized, will eliminate the use of certain instruments, such as cumulative preferred stock and trust preferred securities, as Tier I holding company capital. However, instruments issued before May 19, 2010 by bank holding companies with less than $15 billion of consolidated assets are grandfathered. Such grandfathering applies to certain trust preferred securities issued by First Mariner, although at December 31, 2012, none of our trust preferred securities qualified for use in our capital calculations due to certain limitations.

Stock Repurchases

A bank holding company is required to give the FRB prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would violate any law, regulation, FRB order, directive, or any condition imposed by, or written agreement with, the FRB. This requirement does not apply to bank holding companies that are "well capitalized," received one of the two highest examination ratings at their last examination, and are not the subject of any unresolved supervisory issues.

Source of Strength

Under FRB policy, a bank holding company is expected to act as a source of financial strength to its subsidiary banks and to make capital injections into a troubled subsidiary bank, and generally the FRB may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank when required. A required capital injection may be called for at a time when the holding company does not have the resources to provide it. The Dodd-Frank Act contained provisions codifying the source of strength doctrine and requiring the promulgation of regulations. It is not known when such regulations will be finalized.

In addition, depository institutions insured by the FDIC can be held liable for any losses incurred by, or reasonably anticipated to be incurred by, the FDIC in connection with the default of, or assistance provided to, a commonly controlled FDIC-insured depository institution. Accordingly, in the event that any insured subsidiary of First Mariner causes a loss to the FDIC, other insured subsidiaries could be required to compensate the FDIC by reimbursing it for the estimated amount of such loss. Such cross guaranty liabilities generally are superior in priority to the obligations of the depository institution to its stockholders due solely to their status as stockholders and obligations to other affiliates. At December 31, 2012, the Bank was the only subsidiary depository institution of First Mariner.

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Acquisitions of Bank Holding Companies and Banks

Under the BHCA, any company must obtain approval of the FRB prior to acquiring control of First Mariner or the Bank. For purposes of the BHCA, control is defined as ownership of more than 25% of any class of voting securities of First Mariner or the Bank, the ability to control the election of a majority of the directors, or the exercise of a controlling influence over management or policies of First Mariner or the Bank. Any bank holding company must secure FRB approval prior to acquiring 5% or more of the stock of First Mariner or the Bank.

The Change in Bank Control Act and the related regulations of the FRB require any person or persons acting in concert (except for companies required to make application under the BHCA), to file a written notice with, and review the nonobjection of, the FRB before such person or persons may acquire direct or indirect control of First Mariner. The Change in Bank Control Act implementing regulations presume control as the power, directly or indirectly, to vote 10% or more of any voting securities or to direct the management or policies of a bank holding company, such as First Mariner, that has securities registered under the Securities Exchange Act of 1934 (the "Exchange Act").

Maryland Bank Holding Company Regulation

Under Maryland law, acquisitions of 25% or more of the voting stock of a Maryland commercial bank or a Maryland bank holding company and other acquisitions of voting stock of such entities which affect the power to direct or to cause the direction of the management or policy of a commercial bank or a bank holding company must be approved in advance by the Commissioner. Any voting stock acquired without the approval required under the statute may not be voted for a period of five years. Certain acquisitions by bank holding companies of 5% or more of the stock of Maryland banks or Maryland bank holding companies are governed by Maryland's holding company statute and also require prior approval of the Commissioner. Also, a bank holding company and its Maryland chartered bank subsidiary, must generally obtain the prior approval of the Commissioner prior to, directly or indirectly, acquiring nonbanking subsidiaries or affiliates.

Regulation of the Bank

The Bank is a Maryland chartered trust company, with all the powers of a commercial bank, regulated and examined by the Commissioner and the FDIC.

Business Activities

Maryland law and the Commissioner regulate the Bank's internal organization as well as deposit, lending, and investment activities. In its lending activities, the maximum legal rate of interest, fees, and charges that may be charged on a particular loan depends on a variety of factors such as the type of borrower, the purpose of the loan, the amount of the loan, and the date the loan is made. Other laws tie the maximum amount that may be loaned to any one customer and related interests to a financial institution's capital levels. Additionally, Maryland law contains a parity statute by which Maryland institutions may, with the approval of the Commissioner, engage in any additional activity, service, or other practice that is permitted for national banks.

The FDIC also regulates many of the areas regulated by the Commissioner and federal law may limit some of the authority provided by Maryland law. Approval of the Commissioner and the FDIC is required for, among other things, business combinations and the establishment of branch offices.

Branching Activities

Any Maryland-chartered bank meeting certain requirements may, with the approval of the Commissioner and the FDIC, establish and operate branches anywhere in the state.

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Interstate Branching

Federal law authorizes the responsible federal banking agencies to approve merger transactions between banks located in different states unless the state in which the target is located has opted out. Accordingly, a Maryland bank may acquire branches in a state other than Maryland unless the other state has enacted legislation opting out. Federal law also authorizes *de novo* branching into another state. The Dodd-Frank Act removed a requirement that host states enact a law expressly permitting out of state banks to establish such branches within its borders.

Activities and Investments

Since the enactment of FDICIA, all state-chartered FDIC insured banks have generally been limited to activities as principal to those authorized for national banks, notwithstanding any broader authority that may exist in state law. Additionally, FDICIA limits equity investments by state banks to the types and amounts permitted for national banks, subject to certain exceptions. For example, the FDIC is authorized to permit banks to engage in state-authorized activities or investments that are impermissible for national banks (other than nonsubsidiary equity investments) if the bank meets all applicable capital requirements and it is determined that the activities or investments do not pose a significant risk to the DIF.

Capital Requirements

The Bank is subject to the FDIC's regulatory capital requirements. The capital regulations currently require state banks to meet two minimum capital standards: a 4% Tier I (or "core") capital to adjusted average quarterly assets ("leverage") ratio (3% for institutions receiving the highest rating on the depository institution examination rating system) and an 8% total risk-based capital ratio.

Tier I capital is generally defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock, and related surplus and minority interests in equity accounts of consolidated subsidiaries, less certain deferred tax assets and intangibles other than certain mortgage-servicing rights ("MSRs") and credit card relationships.

The risk-based capital standard requires the maintenance of Tier I and total capital (which is defined as Tier I capital plus Tier II (or "supplementary") capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining risk-weighted assets, all assets, including certain off-balance sheet items, recourse obligations, residual interests, and direct credit substitutes, are multiplied by risk weightings of 0% to 200%, which are assigned by the FDIC capital regulation based on the risks believed inherent in the type of asset. The components of Tier II capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses up to a maximum of 1.25% of risk-weighted assets, and up to 45% of unrealized gains on available-for-sale ("AFS") equity securities with readily determinable fair market values. Overall, the amount of Tier II capital included as total capital cannot exceed 100% of Tier I capital.

The FDIC also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. The FDIC has done so in the case of the Bank. See Item 1A "Risk Factors" later in Part I of this Annual Report on Form 10-K for additional information on the Bank's agreements with its various regulators. See also "Capital Resources" in Item 7 of Part II of this Annual Report on Form 10-K.

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Basel III Proposal

In the summer of 2012, our primary federal regulators, published two notices of proposed rulemaking (the "2012 Capital Proposals") that would substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including First Mariner and the Bank, compared to the current U.S. risk-based capital rules, which are based on the international capital accords of the Basel Committee on Banking Supervision (the "Basel Committee") which are generally referred to as "Basel I."

One of the 2012 Capital Proposals (the "Basel III Proposal") addresses the components of capital and other issues affecting the numerator in banking institutions' regulatory capital ratios and would implement the Basel Committee's December 2010 framework, known as "Basel III," for strengthening international capital standards. The other proposal (the "Standardized Approach Proposal") addresses risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and would replace the existing Basel I-derived risk-weighting approach with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 "Basel II" capital accords. Although the Basel III Proposal was proposed to come into effect on January 1, 2013, the federal banking agencies jointly announced on November 9, 2012 that they do not expect any of the proposed rules to become effective on that date. As proposed, the Standardized Approach Proposal would come into effect on January 1, 2015.

The federal banking agencies have not proposed rules implementing the final liquidity framework of Basel III and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

The regulations ultimately applicable to financial institutions may be substantially different from the Basel III final framework as published in December 2010 and the proposed rules issued in June 2012. Management will continue to monitor these and any future proposals submitted by our regulators.

Prompt Corrective Regulatory Action

Federal law requires the appropriate federal regulatory agency to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, a bank that has a ratio of total capital to risk-weighted assets of less than 8%, a ratio of Tier I capital to risk-weighted assets of less than 4%, or a leverage ratio of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." A bank that has a total risk-based capital ratio of less than 6%, a Tier I capital ratio of less than 3%, or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and a bank that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, a receiver or conservator must be appointed within specified time frames for an institution that is "critically undercapitalized." The law also provides that an acceptable restoration plan must be filed within 45 days of the date a bank receives notice that it is "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent company up to the lesser of 5% of the Bank's total assets when deemed to be undercapitalized or the amount necessary to achieve compliance with all applicable capital requirements. In addition, certain mandatory supervisory actions become applicable to any undercapitalized institution including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions (including dividends), and expansion. The FDIC can also take additional discretionary supervisory actions, including the issuance of a capital directive, requiring the sale of the institution, and the replacement of senior executive officers and directors. See Item 1A "Risk Factors" later in Part I and "Capital Resources" in Item 7 of Part II of this Annual Report on Form 10-K for additional information on the Bank's agreements

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with its various regulators and our capital resources and noncompliance with directed capital requirements.

Safety and Soundness Guidelines

Federal law requires each federal banking agency to establish safety and soundness standards for institutions under its authority. The federal banking agencies, including the FDIC, have released Interagency Guidelines Establishing Standards for Safety and Soundness. The guidelines specify basic standards for matters such as internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure and asset growth, asset quality, earnings, and employee compensation. If the appropriate federal banking agency determines that a depository institution is not in compliance with the safety and soundness guidelines, it may require the institution to submit an acceptable plan to achieve compliance with the guidelines. The institution must submit an acceptable compliance plan within 30 days of receipt of a request for such a plan. Failure to submit or implement a compliance plan may result in regulatory sanctions.

Uniform Lending Standards

Under FDIC's regulations, state banks must adopt and maintain written policies that establish appropriate limits and standards for loans that are secured by interests in real estate or are made for the purpose of financing permanent improvements to real estate. The policies must establish loan portfolio diversification standards, prudent underwriting standards, including LTV limits that are clear and measurable, loan administration procedures and documentation, and loan approval and reporting requirements. Such real estate lending policies must reflect the Interagency Guidelines for Real Estate Lending Policies that have been adopted by the federal banking agencies.

Transactions with Related Parties

Transactions between a bank and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate is any company or entity, which controls, is controlled by or is under common control with the bank. For example, First Mariner is an affiliate of the Bank's for purposes of those laws. Generally, Sections 23A and 23B: (i) limit the extent to which an institution or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus; (ii) impose collateral requirements on certain transactions with, including loans to, affiliates; and (iii) require that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to a nonaffiliate. The term "covered transaction" includes loans to, purchases of assets from, and the issuance of guarantees on behalf of an affiliate and certain other transactions.

Banks also are subject to the federal restrictions on loans to executive officers, directors, and greater than 10% stockholders (collectively, "insiders"). Generally, loans to insiders and certain related interests must be approved in advance by a majority of the board of directors of the institution, with any "interested" director not participating in the voting, if the loan exceeds the greater of $25,000 or 5% of the bank's capital. Any loan which, combined with prior loans to the insider and their related interest, aggregates $500,000 or more are subject to the board's approval requirements in all cases. Loans to insiders must be made on terms substantially the same as offered in comparable transactions to outside parties. There is an exception for extensions of credit made to officers and directors as part of a bank-wide compensation or benefit program that does not favor directors or officers over other employees. There are further restrictions on loans that can be made to executive officers.

Additionally, Maryland law imposes restrictions on loans to directors, officers, or employees of Maryland commercial banks. Generally, a director, officer, or employee of a commercial bank may not

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borrow, directly or indirectly, any money from the bank, unless the loan has been approved by the board of directors, or the executive committee of the bank, if that committee is authorized to approve loans. Commercial loans made to nonemployee directors of a bank and certain consumer loans made to nonofficer and nondirector employees of a bank are exempted.

Dividend Restrictions

A Maryland bank's ability to pay dividends is governed by Maryland law and the regulations of the FDIC. Under Maryland law, if the surplus of a commercial bank is less than 100% of its capital stock then, until the surplus equals at least 100% of the capital stock, the commercial bank: (i) must transfer to its surplus annually at least 10% of its net earnings and (ii) may not declare or pay any cash dividends that exceed 90% of its net earnings. Maryland law provides for dividends only out of undivided profits or, with the approval of the Commissioner, surplus in excess of 100% of required capital stock. Also, under FDIC regulations, no bank may pay a dividend if it would be "undercapitalized" within the meaning of the prompt corrective action laws, or if it is in default of any deposit insurance assessment. See also Item 1A "Risk Factors Our ability to pay cash dividends is limited" later in Part I of this Annual Report on Form 10-K.

Enforcement

The Commissioner has extensive enforcement authority over Maryland banks. Such authority includes the ability to issue cease and desist orders and civil money penalties and to remove directors or officers. The Commissioner may also take possession of a Maryland bank whose capital is impaired and seek to have a receiver appointed by a court.

The FDIC has primary federal enforcement responsibility over state banks under its jurisdiction, including the authority to bring enforcement action against all "institution-related parties," including stockholders and any attorneys, appraisers, and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors, receivership, conservatorship, or termination of deposit insurance. Civil money penalties cover a wide range of violations and actions and range up to $25,000 per day or even up to $1 million per day (in the most egregious cases). Criminal penalties for most financial institution crimes include fines of up to $1 million and imprisonment for up to 30 years.

The Bank has entered into a Consent Order with the FDIC and the Commissioner. See Item 1A "Risk Factors" later in Part I and "Capital Resources" in Item 7 of Part II of this Annual Report on Form 10-K.

Community Reinvestment Act

Under the CRA, as implemented by FDIC regulations, a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires the FDIC, in connection with its examination of a bank, to assess the institution's record of meeting the credit needs of its community and to take the record into account in its evaluation of certain applications by the institution.

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Assessments

Maryland banks are required to pay annual assessments to the Commissioner's office to cover the cost of regulating Maryland institutions. The Bank's asset size determines the amount of the assessment.

Insurance of Deposit Accounts

The Bank's deposits are insured up to applicable limits by the DIF of the FDIC. Under the FDIC's risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels, and certain other factors, with less risky institutions paying lower assessments. An institution's assessment rate depends upon the category to which it is assigned. The Dodd-Frank Act required the FDIC to amend its procedures to base assessments on total assets less tangible equity rather than deposits and on February 7, 2011, the FDIC issued final rules, effective April 1, 2011, implementing resultant changes to the assessment rules. Initially, the base assessment rates range from 2.5 to 45 basis points. The rate schedules will automatically adjust in the future when the DIF reaches certain milestones. No institution may pay a dividend if in default of the federal deposit insurance assessment.

In order to cover losses to the DIF, the FDIC imposed on all insured institutions a special emergency assessment of five basis points of total assets minus Tier I capital, as of June 30, 2009 (capped at ten basis points of an institution's deposit assessment base). That special assessment was collected on September 30, 2009. In lieu of further special assessments, the FDIC required insured institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 through the fourth quarter of 2012. The Bank received an automatic waiver of the prepayment requirement. These estimated assessments include an assumed annual assessment base increase of 5%.

Due to the recent difficult economic conditions, deposit insurance per account owner was raised to $250,000 for all types of accounts. That coverage was made permanent by the Dodd-Frank Act. In addition, the FDIC adopted an optional Temporary Liquidity Guarantee Program by which, for a fee, noninterest bearing transaction accounts would receive unlimited insurance coverage until June 30, 2010, subsequently extended to December 31, 2010 and then to December 31, 2012 by the Dodd-Frank Act, and certain senior unsecured debt issued by institutions and their holding companies between October 13, 2008 and December 31, 2010 would be guaranteed by the FDIC through June 30, 2012, or in some cases, December 31, 2012. The Bank participated in the unlimited noninterest bearing transaction account coverage. The Bank and First Mariner opted to participate in the unsecured debt guarantee program.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund.

The Dodd-Frank Act increased the minimum target DIF ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Company. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

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Federal Reserve System

Federal Reserve regulations require depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). The regulations currently provide that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including $79.5 million; a 10% reserve ratio is applied above $79.5 million. The first $12.4 million of otherwise reservable balances are exempted from the reserve requirements. These amounts are adjusted annually. The Bank is in compliance with the foregoing requirements.

Mortgage Banking and Related Consumer Protection Regulations

The retail activities of banks, including our mortgage-banking operation, are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by banks are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to federal laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act and Regulation Z issued by the FRB, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act and Regulation C issued by the FRB, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act and Regulation B issued by the FRB, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act and Regulation V issued by the FRB, governing the use and provision of information to consumer reporting agencies;
- the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- the guidance of the various federal agencies charged with the responsibility of implementing such federal laws.

Deposit operations also are subject to:

- the Truth in Savings Act and Regulation DD issued by the FRB, which requires disclosure of deposit terms to consumers;
- Regulation CC issued by the FRB, which relates to the availability of deposit funds to consumers;
- the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- the Electronic Funds Transfer Act and Regulation E issued by the FRB, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

In addition, the Bank and its subsidiaries may also be subject to certain state laws and regulations designed to protect consumers.

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Many of the foregoing laws and regulations are subject to change resulting from the provisions in the Dodd-Frank Act, which in many cases calls for revisions to implementing regulations. In addition, oversight responsibilities of these and other consumer protection laws and regulations will, to a certain extent, be subject to the oversight of not only the Bank's primary regulators, but also the Bureau. We cannot predict the effect of an additional regulatory authority focused on consumer financial protection, or any new implementing regulations or revisions to existing regulations that may result from the establishment of this new authority, will have on our businesses.

Federal Securities Laws

The shares of First Mariner common stock are registered with the SEC under Section 12(g) of the Exchange Act, as amended, and listed on the Over-The-Counter Bulletin Board ("OTCBB"). First Mariner is subject to information reporting requirements, proxy solicitation requirements, insider trading restrictions, and other requirements of the Exchange Act, including the requirements imposed under the federal Sarbanes-Oxley Act of 2002. Among other things, loans to and other transactions with insiders are subject to restrictions and heightened disclosure, directors and certain committees of the Board must satisfy certain independence requirements, and First Mariner is generally required to comply with certain corporate governance requirements.

Economic Monetary Policies and Economic Controls

We are affected by monetary policies of regulatory agencies, including the FRB, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. Among the techniques available to the FRB are: engaging in open market transactions in U.S. Government securities; changing the discount rate on bank borrowings; changing reserve requirements against bank deposits; prohibiting the payment of interest on demand deposits; and imposing conditions on time and savings deposits. These techniques are used in varying combinations to influence the overall growth of bank loans, investments, and deposits. Their use may also affect interest rates charged on loans or paid on deposits. The effect of governmental policies on our earnings cannot be predicted. However, our earnings will be impacted by movement in interest rates, as discussed in Item 7A of Part II of this Annual Report on Form 10-K.

ITEM 1A RISK FACTORS

We are subject to restrictions and conditions of a Cease and Desist Order issued by the FDIC and the Commissioner ("September Order"), and agreements with the FRB ("FRB Agreement" and "New FRB Agreement") (collectively, the "FRB Agreements") and have incurred and expect to continue to incur significant additional regulatory compliance expense in connection with these enforcement actions.

The FDIC and the Commissioner have issued Cease and Desist Orders against the Bank and the Company. The Bank and the Company have also entered into the FRB Agreements. The September Order contains a number of significant directives, including higher capital requirements, requirements to reduce the level of our classified assets, operating restrictions, and restrictions on dividend payments by the Bank. These restrictions may impede our ability to operate our business. If we continue to fail to comply with the terms and conditions of the September Order or the FRB Agreements, the appropriate regulatory authority could take additional enforcement action against us, including the imposition of further operating restrictions, monetary penalties, or possibly place the Bank in receivership. We could also be directed to seek a merger partner. We have incurred and expect to continue to incur significant additional regulatory compliance expense in connection with the enforcement actions and we will incur ongoing expenses attributable to compliance with the terms of the enforcement actions. Although we do not expect it, it is possible regulatory compliance expenses related to the enforcement actions could have a material adverse impact on us in the future. In addition, our ability to independently make certain changes to our business is restricted by the terms of

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the September Order and the FRB Agreements, which could negatively impact the scope and flexibility of our business activities. While we believe that we will be able to take actions that will result in the September Order and the FRB Agreements being terminated in the future, we cannot guarantee that such actions will result in the termination of the September Order and/or the FRB Agreements. Further, the imposition of the September Order and the FRB Agreements may make it more difficult to attract and retain qualified employees. Specifically, the significant terms of the September Order are as follows:

- increase capitalization;
- improve earnings;
- reduce nonperforming loans;
- strengthen management policies and practices; and
- reduce reliance on noncore funding.

We have taken steps to increase capitalization through a stock offering in 2010 and through retention of earnings. We are attempting to improve earnings by reducing our nonperforming loans through workouts and other resolutions, including accelerated write-downs and sales of foreclosed assets. In addition, we are attempting to conservatively increase loan originations in order to improve our interest income. We have adopted a plan to improve enterprise-wide risk management and effectiveness of internal audit programs. To address our reliance on noncore funding, we have adopted a liquidity plan intended to reduce the Bank's reliance on noncore funding, wholesale funding sources, and high-cost rate-sensitive deposits. We have eliminated all brokered deposits.

The significant terms of the FRB Agreements are as follows:

- develop and implement a strategic business plan that includes (a) actions that will be taken to improve operating performance and reduce the level of parent company leverage, (b) a comprehensive budget and an expanded budget review process, (c) a description of the operating assumptions that form the basis for major projected income and expense components and provisions needed to maintain an adequate loan loss reserve, and (d) a capital plan incorporating all capital needs, risks, and regulatory guidelines;
- submit plans to improve enterprise-wide risk management and effectiveness of internal audit programs;
- prohibits First Mariner and the Bank from taking any of the following actions without the FRB's prior written approval: (i) declaring or paying any dividends; (ii) taking dividends from the Bank; (iii) making any distributions of interest, principal, or other sums on First Mariner's subordinated debentures or trust preferred securities; (iv) incurring, increasing, or guaranteeing any debt; or (v) repurchasing or redeeming any shares of its stock; and
- adopt a plan to achieve and maintain a leverage capital ratio and a Tier I capital to risk-weighted assets ratio of at least 4.0% and a total risk-based capital ratio of at least 8%.

We have adopted all plans required by the FRB Agreements and have not taken any of the prohibited actions. We have taken steps to increase capitalization (and therefore, our capital ratios) through a stock offering in 2010 and through retention of earnings.

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As of December 31, 2012, the Bank's and the Company's capital levels were not sufficient to achieve compliance with the higher capital requirements we were to have met by June 30, 2010. The failure to meet and maintain these capital requirements could result in further action by our regulators.

In the September Order, the FDIC and the Commissioner directed the Bank to raise its leverage and total risk-based capital ratios to 6.5% and 10%, respectively, by March 31, 2010 and to 7.5% and 11%, respectively, by June 30, 2010. We did not meet these requirements. We have been in regular communication with the staffs of the FDIC and the Commissioner regarding efforts to satisfy the higher capital requirements.

First Mariner currently does not have any material amounts of capital available to invest in the Bank and any further increases to our allowance for loan losses and operating losses would negatively impact our capital levels and make it more difficult to achieve the capital levels directed by the FDIC and the Commissioner.

Because we have not met all of the capital requirements set forth in the September Order within the prescribed timeframes, the FDIC and the Commissioner could take additional enforcement action against us, including the imposition of monetary penalties, as well as further operating restrictions. The FDIC or the Commissioner could direct us to seek a merger partner or possibly place the Bank in receivership. If the Bank is placed into receivership, the Company would cease operations and liquidate or seek bankruptcy protection. If the Company were to liquidate or seek bankruptcy protection, we do not believe that there would be assets available to holders of the capital stock of the Company.

Additionally, in accordance with the requirements of the FRB Agreements, the Company submitted a written plan to maintain sufficient capital at the holding company level, such that First Mariner satisfies the FRB's minimum capital requirements. To satisfy these requirements, First Mariner's consolidated Tier I capital to average quarterly assets, Tier I capital to risk-weighted assets, and total capital to risk-weighted assets ratios must be at least 4.0%, 4.0%, and 8.0%, respectively. At December 31, 2012, those capital ratios were (0.5)%, (0.8)%, and (0.8)%, respectively, which were not in compliance with the minimum requirements. As further described above, the failure to meet all of the capital ratios could subject us to additional enforcement actions.

The Bank currently is classified as "undercapitalized" under prompt corrective action regulations. If a state bank is classified as "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," the FDIC would be required to take one or more prompt corrective actions. These actions would include, among other things, requiring sales of new securities to bolster capital, improvements in management, limits on interest rates paid, prohibitions on transactions with affiliates, termination of certain risky activities, and restrictions on compensation paid to executive officers. If a bank is classified as "critically undercapitalized," FDICIA requires the bank to be placed into conservatorship or receivership within 90 days, unless the FDIC determines that other action would better achieve the purposes of FDICIA regarding prompt corrective action with respect to undercapitalized banks.

There is doubt about our ability to continue as a going concern.

As discussed above, the Bank is subject to the September Order and the FRB Agreements, both of which require the Bank and the Company, respectively, to increase leverage and total risk-based capital ratios and, at December 31, 2012, the Company was below the required levels. Failure to increase the Company's capital ratios or further declines in the capital ratios expose the Company and the Bank to additional restrictions and regulatory actions, including potential receivership of the Bank. This uncertainty as to the Company's ability to meet existing or future regulatory requirements raises substantial doubt about our ability to continue as a going concern. Unless the Company is able to raise sufficient levels of capital in the near future, we may be unable to meet the capital ratio requirements. The Company's audited financial statements were prepared under the assumption that we will continue our operations on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. The Company's financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. If the Company cannot continue as a going concern, our shareholders will lose some or all of their investment in the Company. In addition, the Bank's customers, employees, vendors, correspondent institutions, and others with whom the Bank does business may react negatively to the doubt about our ability to continue as a going concern. This negative reaction may lead to heightened concerns regarding the Bank's financial condition that could result in a significant loss in deposits and customer relationships, key employees, vendor relationships and our ability to do business with correspondent institutions upon which we rely.

We may need to raise additional capital through a share issuance in the future that would dilute your ownership if you do not, or are not permitted to, invest in the additional issuances.

Should we need to raise additional capital in the future, we might seek to do so through one or more offerings of our common stock, securities convertible into common stock, or rights to acquire such securities of our common stock. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time and on our financial performance. There has been unprecedented volatility and disruption in the capital and credit markets in recent years, which has produced downward pressure on stock prices and credit availability for numerous issuers, including First Mariner. If current levels of market disruption and volatility continue or worsen, and if our stock price remains at its current level, we may be unable to raise additional capital, or we may be able to raise capital only at prices that would be unfavorable and dilutive to our shareholders. As further described above, if we cannot raise additional capital when needed, our results of operations and financial condition may be adversely affected, and our banking regulators may subject us to further regulatory enforcement action.

Under our Articles of Incorporation, we have additional authorized shares of common stock that we can issue from time to time at the discretion of our board of directors, without further action by the shareholders, except where shareholder approval is required by law.

The issuance of any additional shares of common stock or securities convertible into common stock could be substantially dilutive to shareholders of our common stock, particularly those who are not able to or choose not to participate in such additional issuances. Holders of our shares of common stock have no preemptive rights that entitle them to purchase their pro-rata share of any offering of shares of any class or series and, therefore, our shareholders may not be permitted to invest in any future issuances of our common stock and as a result could be diluted.

We have taken actions, and may take additional actions, to help us meet immediate needs for capital, including reducing our assets and liabilities. The disposition of our assets and liabilities could hurt our long-term profitability.

On December 14, 2009, First Mariner consummated the sale of its equity interests in Mariner Finance, LLC ("Mariner Finance") to MF Raven Holdings, Inc. for a purchase price of approximately $10.5 million. We retained a 5% ownership stake in the new Mariner Finance entity. We recorded a loss on the sale of $11.1 million during 2009. While this transaction provided First Mariner with $10.5 million in cash to invest in the Bank to increase the Bank's capital, we have and will realize significantly less income generated by Mariner Finance going forward.

Additionally, we closed our downtown Baltimore branch and our Shrewsbury, Pennsylvania branch in 2010 in order to reduce overhead costs in support of our strategy of prudently reducing assets and liabilities. We also closed our Lutherville/Timonium branch during the first quarter of 2012 and we anticipate closing our Perry Hall, Odenton, and Columbia branches during the second quarter of 2013.

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Management expects to further evaluate its options for selling and/or closing additional branches as necessary. The Bank has not entered into any agreement to sell any branch office and no guarantee can be made that any such agreement will be entered into and if such agreement is entered into, whether such sale will be consummated. The approval of the FDIC and the Commissioner will also need to be obtained by any acquirer before purchasing any of our branch offices and there can be no guarantee that such approvals will be received. While branch sales and closures, if completed, will likely reduce our assets and liabilities and increase our Bank capital ratios, we expect that our net income in the future will be reduced as a result of the loss of income generated by these branches.

The Company and the Bank are deemed to be in "troubled condition" within the meaning of federal statutes and regulations.

The Company and Bank are deemed to be in "troubled condition" within the meaning of federal statutes and regulations. As a result, certain limitations and regulatory requirements apply to the Company and the Bank with respect to future changes to senior executive management and directors and the payment of, or the agreement to pay, certain severance payments to officers, directors, and employees. The Bank must also comply with specified recordkeeping requirements in connection with transactions involving certain securities contracts, commodities contracts, repurchase agreements, and certain other financial contracts.

There may be a limited market for our common stock, which may adversely affect our stock price.

Effective September 1, 2011, our stock was delisted from the NASDAQ Stock Market and is now quoted on the OTCBB. The market for our stock may become illiquid and our shares might not be actively traded in the future. If our common stock is not actively traded, you may not be able to sell all of your shares of common stock on short notice, and the sale of a large number of shares at one time could temporarily depress the market price. There may be a wide spread between the bid and ask price for our common stock. When there is a wide spread between the bid and ask price, the price at which you may be able to sell our common stock may be significantly lower than the price at which you could buy it at that time.

Our mortgage-banking operations require a large volume of liquidity

The mortgage-banking operation utilizes investors in the secondary market to purchase residential loans from the Bank once they have settled with the customer. The cash collected through this process is used to fund mortgage-banking and other Bank operations on a daily basis. To the extent that the funding of loan purchases is delayed or cancelled by investors, the Bank must fund the mortgage-banking operations through other means and may cause the Bank to hold increased levels of mortgage loans, thereby negatively affecting regulatory capital ratios as well as liquidity. Prolonged periods of stress in the secondary mortgage market may adversely impact the Bank's ability to fund its daily operations, including, but not limited to, mortgage-banking, commercial loan closings, and deposit withdrawals.

Negative conditions in the general economy and financial services industry may limit our access to additional funding, adversely impact liquidity, impair our ability to fund operations, and jeopardize our financial viability.

Liquidity is essential to our business. We rely on customer deposits, advances from the FHLB, and lines of credit at other financial institutions to fund our operations. Although we have historically been able to replace maturing deposits and advances if desired, no assurance can be given that we would be able to replace such funds in the future. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could further detrimentally impact our access to liquidity sources include a

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decrease in the level of our business activity due to a market downturn, the financial condition of the FHLB, adverse regulatory action against us, and factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

The FHLB has reduced our line of credit, which stands at a total of $129.4 million at December 31, 2012 (with an outstanding balance of $117.0 million as of December 31, 2012). As part of the September Order, we are not allowed to purchase brokered deposits without first obtaining a regulatory waiver. We are also required to comply with restrictions on deposit rates that we may offer. These factors could significantly affect our ability to fund normal operations. At December 31, 2012, we maintained a significant amount of cash and cash equivalents such that management considered the Bank's liquidity level to be sufficient for the purposes of meeting the Bank's cash flow requirements.

Our financial flexibility will be severely constrained and/or our cost of funds will increase if we are unable to maintain our access to funding or if financing necessary to accommodate future growth is not available at favorable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our profitability would be adversely affected.

The large amount of liquidity on our balance sheet negatively impacts our ability to increase income.

Because the FRB Agreements, the September Order, and our reduced borrowing capacity have limited our access to certain sources of funding, we have maintained significantly more liquidity on our balance sheet then we otherwise would. At December 31, 2012, the Bank's cash and cash equivalents amounted to $185.8 million. The opportunity cost of maintaining liquidity at this level or at similar levels is substantial, because, at December 31, 2012, the cash and cash equivalents we have accumulated yielded substantially less than our other interest-earning assets. Until we raise capital to a level that satisfies the capital requirements of the FRB Agreements and the September Order, we will need to maintain significantly higher levels of liquidity which will, in turn, negatively impact our ability to increase income.

Declines in asset values may result in impairment charges and adversely impact the value of our investments, financial performance, and capital. If we conclude that the decline in value of any of our investment securities is other than temporary, we are required to write down the value of that security.

We maintain a securities portfolio that includes, but is not limited to, mortgage-backed securities and pooled trust preferred collateralized debt obligations. The market value of securities may be affected by factors other than the underlying performance of the issuer, such as adverse changes in business climate and lack of liquidity for the resale of certain securities. As of December 31, 2012, our entire securities portfolio was classified as AFS. Unrealized gains and losses in the estimated value of the AFS portfolio are "marked to market" and reflected as a separate item in stockholders' deficit as accumulated other comprehensive loss.

We periodically, but not less than quarterly, evaluate securities and other assets for impairment indicators. We may be required to record impairment charges if securities suffer a decline in value that is considered other than temporary. Changes in the expected cash flows, credit enhancement levels, or credit ratings of our securities and/or prolonged price declines may result in our concluding in future periods that the impairment of our securities is other than temporary. If we determine that a significant impairment has occurred, we would be required to charge against earnings the credit-related portion of the other-than-temporary impairment ("OTTI"), which could have a material adverse effect on results of operations in the period in which the write-off occurs. During the years ended December 31, 2012, 2011, and 2010, we recognized $460,000, $838,000, and $1.2 million, respectively, in such charges.

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The Bank is a member of the FHLB. A member of the FHLB system is required to purchase stock issued by the relevant FHLB bank based on how much it borrows from the FHLB and the quality of the collateral pledged to secure that borrowing. Included in our investment portfolio (classified as a restricted stock investment) as of December 31, 2012 is $7.0 million in capital stock of the FHLB. The FHLB is experiencing a potential capital shortfall and has, in the past, suspended its quarterly cash dividend, and could possibly require its members, including First Mariner, to make additional capital investments in the FHLB. There can be no guaranty that the FHLB will declare future dividends. In order to avail ourselves of correspondent banking services offered by the FHLB, we must remain a member of the FHLB. If the FHLB were to cease operations, or if we were required to write-off our investment in the FHLB, our business, financial condition, liquidity, capital, and results of operations may be materially and adversely affected.

Accounting guidance indicates that an investor in FHLB stock should recognize impairment if it concludes that it is not probable that it will ultimately recover the par value of its shares. The decision of whether impairment exists is a matter of judgment that should reflect the investor's and FHLB's long-term performance, which includes factors such as its operating performance, the severity and duration of declines in the market value of its net assets related to its capital stock amount, its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance, the impact of legislation and regulatory changes on the FHLB, and accordingly, on the members of the FHLB, and its liquidity and funding position. After evaluating all of these considerations, we believe the par value of our FHLB stock will be recovered, but future evaluations of the above mentioned factors could result in the Bank recognizing an impairment charge.

Management believes that several factors will affect the market values of our securities portfolio. These include, but are not limited to, changes in interest rates or expectations of changes, the degree of volatility in the securities markets, inflation rates or expectations of inflation and the slope of the interest rate yield curve (the yield curve refers to the differences between shorter-term and longer-term interest rates; a positively sloped yield curve means shorter-term rates are lower than longer-term rates). Also, the passage of time will affect the market values of our securities, in that the closer they are to maturing, the closer the market price should be to par value. These and other factors may impact specific categories of the portfolio differently, and management cannot predict the effect these factors may have on any specific category.

There can be no assurance that future market performance of our securities portfolio will enable us to realize income from sales of securities. Stockholders' deficit will continue to reflect the unrealized gains and losses of these securities. There can be no assurance that the market value of our securities portfolio will not decline, causing a corresponding increase in our stockholders' deficit.

We have elected to defer the payment of interest on our outstanding trust preferred securities issued by trust subsidiaries of our holding company and expect to continue to defer the payment of interest for the foreseeable future.

Though we have deferred the payment of interest on the subordinated debentures related to the trust preferred securities, we continue to accrue interest expense related to the trust preferred securities. We recognized interest expense of $1.7 million, $1.6 million, and $1.9 million on the trust preferred securities during the years ended December 31, 2012, 2011, and 2010, respectively.

Under the terms of the subordinated debentures, our deferral of interest payments for up to 20 consecutive quarters (through the last quarter of 2013) does not constitute an event of default. During the deferral period, the deferred interest payments continue to accrue. To the extent applicable law permits interest on interest, the deferred interest payments also accrue interest at the rates specified in the corresponding indentures, compounded quarterly. All of the deferred interest and the compounded interest are due in full at the end of the applicable deferral period. If we fail to pay the deferred and

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compounded interest at the end of the deferral period, each trustee of the various trusts, or in most cases the holders of 25% of the outstanding principal amount of any issue of trust preferred securities, would have the right, after any applicable grace period, to declare an event of default. The occurrence of an event of default on the subordinated debentures would entitle the trustees and holders of the trust preferred securities to exercise various remedies, including demanding immediate payment in full of the entire outstanding principal amount of the subordinated debentures.

Currently we have no cash available at First Mariner to resume the payment of interest on the subordinated debentures and the FRB Agreements prohibit First Mariner from making distributions on our trust preferred securities. Accordingly, our ability to resume the payment of interest on the subordinated debentures will depend on the Bank's ability to generate earnings and pay dividends to First Mariner. In addition, the terms of the September Order currently prohibit the payment of dividends by the Bank without regulatory approval. As a result, if by January 1, 2014 the September Order is not terminated, or if we do not achieve sufficient profitability for the Bank so that our regulators would grant approval for the Bank to pay dividends, we will be unable to resume the payment of interest on the subordinated debentures. Even if the Bank is able to resume paying dividends, we cannot be assured that the amount of dividends would be sufficient to pay the entire amount of interest due under the subordinated debentures at the end of the deferral period.

We have had losses in recent periods.

Although we realized net income of $16.1 million during 2012, for the years ended December 31, 2011 and 2010, we incurred net losses of $30.2 million and $46.6 million, respectively. Our earnings in those periods were hurt by adverse economic conditions, including falling home prices, increasing foreclosures, and increasing unemployment in our markets, and our losses for the years ended December 31, 2011 and 2010 included $14.3 million and $17.8 million, respectively, of provisions for loan losses. Our ability to maintain profitability will depend on whether we are able to continue to reduce credit losses in the future, which will depend, in part, on whether economic conditions in our markets continue to improve. Management believes that our current business plan will be successful; however, our business plan is subject to current market conditions and its successful implementation is uncertain. There is no assurance that we will be successful in executing our business plan or that even if we successfully implement our business plan, we will be able to maintain our profitability. If we incur significant operating losses again in the future, our stock price may further decline. Even if we increase capital levels so as to meet the Bank and consolidated capital levels mandated by our regulators, if we incur further operating losses, we may in the future need to raise additional capital to maintain Bank and Company capital levels that meet or exceed the levels mandated by our regulators.

Higher loan losses could require us to increase our allowance for loan losses through a charge to earnings.

When we loan money we incur the risk that our borrowers do not repay their loans. We reserve for loan losses by establishing an allowance through a charge to earnings. The amount of this allowance is based on our assessment of loan losses inherent in our loan portfolio. The process for determining the amount of the allowance is critical to our financial results and condition. It requires subjective and complex judgments about the future, including forecasts of economic or market conditions that might impair the ability of our borrowers to repay their loans. We might underestimate the loan losses inherent in our loan portfolio and have loan losses in excess of the amount reserved. We might increase the allowance because of changing economic conditions. For example, in a rising interest rate environment, borrowers with adjustable-rate loans could see their payments increase. There may be a significant increase in the number of borrowers who are unable or unwilling to repay their loans, resulting in our charging off more loans and increasing our allowance. In addition, when real estate values decline, the potential severity of loss on a real estate-secured loan can increase significantly,

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especially in the case of loans with high combined LTV ratios. The decline in the national economy and the local economies of the areas in which the loans are concentrated could result in an increase in loan delinquencies, foreclosures, or repossessions, resulting in increased charge-off amounts and the need for additional loan loss allowances in future periods. In addition, our determination as to the amount of our allowance for loan losses is subject to review by regulatory authorities, as part of their examination process, which may result in the establishment of an additional allowance after a review of the information available at the time of their examination. Our allowance for loan losses amounted to $11.4 million, or 1.9% of total loans outstanding and 20.1% of nonperforming assets ("NPAs") ($56.5 million) and loans past-due 90 days or more and accruing ($222,000), as of December 31, 2012. Our allowance for loan losses at December 31, 2012 may not be sufficient to cover future loan losses. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would decrease our earnings. As of December 31, 2012, we had outstanding loan balances of approximately $541.8 million (88.8% of total loans) that were performing according to their original terms. However, the deterioration of one or more of these performing loans could result in a significant increase in our nonperforming loans and our provision for loan losses, which would negatively impact our results of operations.

We have a high percentage of commercial real estate and real estate construction loans in relation to our total loans.

At December 31, 2012, we had $263.7 million in mortgage loans secured by commercial real estate and $68.7 million in real estate construction loans, which included $49.9 million in commercial construction loans and $18.8 million in consumer construction loans. Commercial mortgage loans and total construction loans represented 43.2% and 11.3%, respectively, of our net loan portfolio. While commercial real estate and construction loans are generally more interest rate sensitive and carry higher yields than do residential mortgage loans, these types of loans generally expose a lender to greater risk of nonpayment and loss than single-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property, the income stream of the borrowers, and, for construction loans, the accuracy of the estimate of the property's value at completion of construction and the estimated cost of construction. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to single-family residential mortgage loans.

Current regulatory guidance suggests that institutions whose commercial real estate loans exceed certain percentages of capital should implement heightened risk management practices appropriate to their concentration risk and may be required to maintain higher capital ratios than institutions with lower concentrations in commercial real estate lending. Based on our commercial real estate concentration as of December 31, 2012, we may be subject to further supervisory analysis during future examinations. Although we continuously evaluate our concentration and risk management strategies, we cannot guarantee that any risk management practices we implement will be effective to prevent losses relating to our commercial real estate portfolio. Management cannot predict the extent to which this guidance will impact our operations or capital requirements.

Mortgage-banking activities generate a significant portion of our noninterest income.

A significant portion of our business involves originating residential mortgage loans through our mortgage division. Mortgage-banking revenue amounted to $49.7 million, $13.6, and $17.0 million for 2012, 2011, and 2010, respectively, which accounted for approximately 89.5%, 58.5%, and 60.1% of our noninterest income for those years, respectively. Real estate loan origination activity, including refinancing, is generally greater during periods of low or declining interest rates and favorable economic conditions. Adverse changes in market conditions and/or higher interest rates could have an adverse impact on our earnings through lower origination volumes.

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We face interest rate risk on our loans held for sale ("LHFS") portfolio.

We are exposed to interest rate risk in both our pipeline of mortgage originations (loans that have yet to close with the borrower) and in our warehouse loans (those loans that have closed with the borrower but have yet to be funded by investors). We have managed this interest rate risk through hedging strategies. We hedge a portion of our mortgage loan pipeline and warehouse utilizing derivatives in the form of forward sales of mortgage-backed securities. We expect that these derivative financial instruments will experience changes in fair value opposite to the change in fair value of the derivative loan commitments and our warehouse. However, the process of selling loans and the use of forward sales of mortgage-backed securities to hedge interest rate risk associated with customer interest rate lock commitments ("IRLC" or "IRLCs") involves greater risk than selling loans on an individual basis through forward delivery commitments. Hedging interest rate risk requires management to estimate the expected "fallout" (rate lock commitments with customers that do not complete the loan process). Additionally, the fair value of the hedge may not correlate precisely with the change in fair value of the rate lock commitments with the customer due to changes in market conditions, such as demand for loan products, or prices paid for differing types of loan products. Variances from management's estimates for customer fallout or market changes making the forward sale of mortgage-backed securities ineffective may result in higher volatility in our profits from selling mortgage loans originated for sale. We engage an experienced third party to assist us in managing our activities in hedging and marketing sales strategy.

We face credit risk related to our residential mortgage production activities.

Credit risk is the potential for financial loss resulting from the failure of a borrower or an institution to honor its contractual obligations to us. We manage mortgage credit risk principally by selling substantially all of the mortgage loans that we produce, limiting credit recourse to the Bank in those transactions, and by retaining high credit quality mortgages in our loan portfolio. We also limit our risk of loss on mortgage loan sales by establishing limits on activity to any one investor and by entering into contractual relationships with only those financial institutions that are approved by our secondary marketing committee. The period of time between closing on a loan commitment with the borrower and funding by the investor ranges from between 15 and 90 days.

Secondary mortgage market conditions could have a material impact on our financial condition and results of operations.

In addition to being affected by interest rates, the secondary mortgage markets are also subject to investor demand for residential mortgage loans. These conditions may fluctuate or even worsen in the future. In light of current conditions, there is a higher risk to retaining a larger portion of mortgage loans than we would in other environments until they are sold to investors. As a result, a prolonged period of secondary market illiquidity may reduce our loan production volumes and could have a material adverse effect on our financial condition and results of operation.

We face risk related to covenants in our loan sales agreements with investors.

Our sales agreements with investors who purchase our loans generally contain covenants which may require us to repurchase loans under certain provisions, including delinquencies. Any loans we are required to repurchase may be considered impaired loans, with the potential for charge-offs and/or loss provision charges. The addition of these repurchased loans to our portfolio could adversely affect our earnings and asset quality ratios.

There may be certain loans in our portfolio that were originated for sale, but for various reasons, are unable to be sold. These loans are transferred to our loan portfolio at fair value, with any deterioration in value charged against mortgage-banking revenue. Any deterioration in value of the loan during the period held in the portfolio is charged to the allowance.

Increased and/or special FDIC assessments will hurt our earnings.

Beginning in late 2008, the economic environment caused higher levels of bank failures, which dramatically increased FDIC resolution costs and led to a significant reduction in the DIF. As a result, the FDIC significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. The increase in the base assessment rate has increased our deposit insurance costs and negatively impacted our earnings. See "Regulation of the Bank Insurance of Deposit Accounts" under "Supervision and Regulation" in Item 1 above for more information on FDIC assessments.

The FDIC may impose additional emergency special assessments if necessary to maintain public confidence in federal deposit insurance or as a result of deterioration in the DIF reserve ratio due to institution failures. Any emergency special assessment imposed by the FDIC will negatively impact our earnings.

We currently hold a significant amount of bank owned life insurance ("BOLI").

We currently hold a significant amount of BOLI on key employees and executives that have cash surrender values of $37.7 million as of December 31, 2012. The eventual repayment of the cash surrender value is subject to the ability of various insurance companies to pay benefits in the event of the death of an insured employee or return the cash surrender value to us in the event of our need for liquidity. We continuously monitor the financial strength of the various insurance companies with whom we carry policies. However, there is no assurance that one or more of these companies will not experience a decline in financial strength, which could impair its ability to pay benefits or return our cash surrender value. Additionally, should we need to liquidate these policies for liquidity needs, we would be subject to taxation on the increase in cash surrender value as well as penalties for early termination of the insurance contracts. These events would have a negative impact on our earnings.

Fluctuating interest rates may adversely affect our profitability.

Our profitability is dependent to a large extent upon net interest income, which is the difference, or spread, between the interest earned on loans, securities, and other interest-earning assets and the interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. In a rapidly changing interest rate environment, we may not be able to manage this risk effectively. Changes in interest rates can also affect: (1) our ability to originate and/or sell loans; (2) the value of our interest-earning assets, which would negatively impact shareholders' deficit and our ability to realize gains from the sale of such assets; (3) our ability to obtain and retain deposits in competition with other available investment alternatives; and (4) the ability of our borrowers to repay adjustable- or variable-rate loans. Interest rates are highly sensitive to many factors, including government monetary policies, domestic and international economic and political conditions, and other factors beyond our control. If we are unable to manage interest rate risk effectively, our business, financial condition, and results of operations could be materially adversely affected.

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Our litigation related costs may continue to increase.

The Bank is subject to a variety of legal proceedings that have arisen in the ordinary course of the Bank's business. In the current economic environment the Bank's involvement in litigation has increased, primarily as a result of defaulted borrowers asserting claims in order to defeat or delay foreclosure proceedings. The Bank believes that it has meritorious defenses in legal actions where it has been named as a defendant and is vigorously defending these suits. Although management, based on discussion with litigation counsel, believes that such proceedings will not have a material adverse effect on the financial condition or operations of the Bank, there can be no assurance that a resolution of any such legal matters will not result in significant liability to the Bank nor have a material adverse impact on its financial condition and results of operations or the Bank's ability to meet applicable regulatory requirements. The expenses of pending legal proceedings will adversely affect the Bank's results of operations until they are resolved. There can be no assurance that the Bank's loan workout and other activities will not expose the Bank to additional legal actions, including lender liability or environmental claims.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry in general, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the value of the collateral held by us cannot be realized upon liquidation or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure. There is no assurance that any such losses would not materially and adversely affect our results of operations.

We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations.

We are subject to extensive regulation, supervision, and examination by federal and state banking authorities. Any change in applicable regulations or laws could have a substantial impact on us and our operations. Additional legislation and regulations that could significantly affect our powers, authority, and operations may be enacted or adopted in the future, which could have a material adverse effect on our financial condition and results of operations. Legislation related to bankruptcy rules and courts and/or foreclosure proceedings to the benefit of borrowers and the detriment of lenders could be enacted by either Congress or the state of Maryland in the future. Any such laws may further restrict our collection efforts on residential mortgage loans.

On July 21, 2010, the President signed into law the Dodd-Frank Act, which contains various provisions designed to enhance the regulation of depository institutions and prevent the recurrence of a financial crisis such as occurred in 2008-2009. These include provisions for, among other things, strengthening holding company capital requirements. Also included is the creation of a new federal agency to administer and enforce consumer and fair lending laws, a function that is now performed by the depository institution regulators. The full impact of the Dodd-Frank Act on our business and operations may not be known for years until full and final regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through increased compliance costs and regulatory burden, increased interest expense, and higher capital standards. If implemented, the Basel III Proposal also may have a material impact on our operations through higher capital standards. See additional information on the Dodd-Frank Act and the Basel III Proposal under "Supervision and Regulation" in Item 1 above.

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We face significant operational risks.

We operate in many different businesses in diverse markets and rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including, but not limited to, the risk of fraud by employees or persons outside of the Company and the Bank, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, catastrophic failures resulting from terrorist acts or natural disasters, breaches of the internal control system, compliance requirements, and business continuation and disaster recovery. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. We maintain a system of internal controls to mitigate against such occurrences and maintain insurance coverage for such risks that are insurable, but should such an event occur that results in a breakdown in the internal control system, improper operation of systems, or improper employee actions, we could suffer financial loss, face regulatory action, and suffer damage to our reputation.

Additionally, the financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Severe weather, natural disasters, acts of war or terrorism, and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue, and/or cause us to incur additional expenses. Operations in several of our markets could be disrupted by both the evacuation of large portions of the population as well as damage and/or lack of access to our banking and operation facilities. Although we have not experienced such an occurrence to date, severe weather or natural disasters, acts of war or terrorism, or other adverse external events may occur in the future. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

If we do not maintain the privacy and security of customer-related information, we could damage our reputation, incur substantial additional costs, and become subject to litigation.

We receive, retain, and transmit certain personal information about our customers. In addition, our online operations rely on the secure transmission of confidential information over public networks. A compromise of our physical and network security systems through a cyber-security attack, including those of our business partners, may threaten our customers' personal information being obtained by unauthorized persons, which could adversely affect our reputation, as well as negatively impact our business, results of operations, financial position, and liquidity, and could result in the imposition of penalties or litigation against us. In addition, a cyber-security breach could require that we expend significant additional resources related to the security of information systems which could result in a disruption of our operations.

The loss of senior management could hurt our operations.

We rely heavily on our senior officer team. The loss of any of our senior officers could have an adverse effect on us because we have been operating with as small a staff as possible to reduce expenses. In 2011, the then Chairman of the Board and Chief Executive Officer ("CEO") of the Company and the Bank retired and the then President of the Bank resigned to pursue another opportunity. Such individuals have not been replaced, and their duties have been assumed by other officers. Moreover, as a result of our capital levels and the September Order, we are subject to regulations that limit our flexibility in offering compensation arrangements that would better enable us to retain our senior officers, and we may find it difficult to attract replacement officers in the event we were to lose existing senior officers. In addition, as a community bank, we have fewer management-level personnel who are in a position to assume the responsibilities of our senior officers.

A continuation or worsening of economic conditions could result in increases in the Company's level of nonperforming loans and/or reduced demand for our products and services, which would lead to lower revenue, higher loan losses, and lower earnings.

The Company's business activities and earnings are affected by general business conditions in the United States and in the Company's primary market area. These conditions include the level of short-term and long-term interest rates, inflation, deflation, unemployment levels, real estate values, monetary supply, consumer confidence and spending, fluctuations in both debt and equity capital markets, and the strength of the economy in the United States generally and in the Company's market area in particular. The national economy experienced a recession from December 2007 to June 2009, with rising unemployment levels, declines in real estate values and an erosion in consumer confidence. The economic recovery since the end of the recession has been weak due to sovereign debt concerns in Europe, lingering high unemployment, declines in housing prices in the United States, and other factors. Dramatic declines in the U.S. housing market over the past few years, with decreasing home prices and increasing foreclosures, have negatively affected the credit performance of mortgage loans and other loans and investments tied to the residential housing market and have resulted in significant write-downs of asset values by many financial institutions. Our local economy has experienced similar economic conditions, although the deterioration may not be as severe in some respects as the national economy overall. A prolonged or more severe economic downturn, continued elevated levels of unemployment, declines in the values of real estate, or other events that affect household and/or corporate incomes could impair the ability of borrowers to repay their loans in accordance with their terms. Nearly all of the Company's loans are secured by real estate, and a majority of our loans are made to individuals and businesses in the localities in which we have offices. As a result of this concentration, a prolonged or more severe downturn in the local economy could result in significant increases in nonperforming loans, which would negatively affect the Company's interest income and result in higher provisions for loan losses, which would hurt the Company's earnings. The economic downturn could also result in reduced demand for credit, which would hurt the Company's revenues. Housing prices and sales activity have stabilized and begun to increase in certain sectors of our marketplace, but it is too early to tell if this is a temporary phenomenon or the beginning of a housing recovery.

We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring, and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our

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employees or otherwise, our business and, therefore, our operating results may be materially adversely affected.

Our ability to pay cash dividends is limited.

Holders of shares of our common stock are entitled to dividends if declared by our board of directors out of funds legally available for that purpose. In general, future dividend policy is subject to the discretion of the board of directors and will depend upon our future earnings, capital requirements, regulatory constraints, and our financial condition, as well as that of the Bank.

Although the board of directors has declared cash dividends in the past, it has discontinued such payments to conserve cash and capital resources and does not intend to declare cash dividends until current earnings are sufficient to generate adequate internal capital to support growth. Moreover, the FRB Agreements prohibit the payment of dividends to our stockholders. Our future ability to pay dividends will be largely dependent upon the receipt of dividends from the Bank. Both federal and state laws impose restrictions on the ability of the Bank to pay dividends. Federal law prohibits the payment of a dividend by an insured depository institution if the depository institution is considered "undercapitalized" or if the payment of the dividend would make the institution "undercapitalized." For a Maryland commercial bank, dividends may be paid out of undivided profits or, with the prior approval of the Commissioner, from surplus in excess of 100% of required capital stock. If, however, the surplus of a Maryland bank is less than 100% of its required capital stock, then cash dividends may not be paid in excess of 90% of net earnings.

Our ability to pay dividends is further subject to our ability to make payments of interest under junior subordinated debentures due through 2035 held by our statutory trusts Mariner Capital Trust ("MCT") II, III, IV, V, VI, and VII (collectively, the "Trusts"). These payments are necessary to fund the distributions that the Trusts each must pay to holders of its trust preferred securities (collectively, the "Trust Preferred Securities"). We have elected to defer interest payments on the debentures. This deferment is permitted by the terms of the debentures and does not constitute an event of default thereunder. Interest on the debentures and dividends on the related Trust Preferred Securities continue to accrue and will have to be paid in full prior to the expiration of the deferral period, which may not exceed 20 consecutive quarters and expires with the last quarter of 2013, and prior to the declaration of any dividends. Under the terms of the Trust Preferred Securities, we are not permitted to pay dividends to our stockholders while we are deferring interest payments on the debentures.

Finally, First Mariner and the Bank have entered into regulatory agreements with our regulators which, among other things, require us to seek prior regulatory approval before the Bank pays dividends to First Mariner and/or before First Mariner pays dividends on its common stock.

Contracts with our officers may discourage a takeover or adversely affect our takeover value.

We have entered into change in control agreements with certain senior officers. These agreements provide for a payment to each officer of a multiple of his or her salary and bonus upon the occurrence of either a change in control that results in the loss of employment or a significant change in his or her employment. Thus, we may be required to make significant payments in the event that the rights under these agreements are triggered by a change in control. As a result, these contracts may discourage a takeover or adversely affect the consideration payable to stockholders in the event of a takeover. Notwithstanding the foregoing, because the Company and the Bank are considered to be in "troubled condition" for regulatory purposes, payments made under any change of control agreement are subject to certain regulatory restrictions and limitations. The Company and the Bank must apply for and receive the approval of the FRB and the FDIC, respectively, in order to make payments under these agreements.

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Our Articles and Bylaws and Maryland law may discourage a corporate takeover.

Our Articles and Amended and Restated Bylaws ("Bylaws") contain certain provisions designed to enhance the ability of the board of directors to deal with attempts to acquire control of the Company. These provisions provide for the classification of our board of directors into three classes; directors of each class serve for staggered three year periods. The Articles also provide for supermajority voting provisions for the approval of certain business combinations.

Maryland law also contains anti-takeover provisions that apply to us. The Maryland Business Combination Act generally prohibits, subject to certain limited exceptions, corporations from being involved in any "business combination" (defined as a variety of transactions, including a merger, consolidation, share exchange, asset transfer, or issuance or reclassification of equity securities) with any "interested shareholder" for a period of five years following the most recent date on which the interested shareholder became an interested shareholder. An interested shareholder is defined generally as a person who is the beneficial owner of 10% or more of the voting power of the outstanding voting stock of the corporation after the date on which the corporation had 100 or more beneficial owners of its stock or who is an affiliate or associate of the corporation and was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding stock of the corporation at any time within the two-year period immediately prior to the date in question and after the date on which the corporation had 100 or more beneficial owners of its stock.

Although these provisions do not preclude a takeover, they may have the effect of discouraging a future takeover attempt which would not be approved by our board of directors, but pursuant to which stockholders might receive a substantial premium for their shares over then-current market prices. As a result, stockholders who might desire to participate in such a transaction might not have the opportunity to do so. Such provisions will also render the removal of our board of directors and of management more difficult and, therefore, may serve to perpetuate current management. Further, such provisions could potentially adversely affect the market price of our common stock.

ITEM 2   PROPERTIES

We lease our executive offices located at 1501 South Clinton Street, Baltimore, Maryland. This location also houses our headquarters branch office. We occupy approximately 42,000 square feet at this location.

We own our former headquarters branch office (now a drive-thru satellite office) located at 3301 Boston Street, Baltimore, Maryland. This location houses drive-up banking facilities as well as other administration offices.

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We operate retail bank branches at the following locations:*

Maryland:

Annapolis(2)
161 A Jennifer Road
Annapolis, MD 21401

Arbutus(2)
3720 Washington Blvd., Suite 100
Baltimore, MD 21227

Bel Air(3)
12 A Bel Air South Parkway
Bel Air, MD 21015

Canton Drive-Thru(1)(4)
3301 Boston Street
Baltimore, MD 21224

Canton Tower/Headquarters(2)
1501 South Clinton Street
Baltimore, MD 21224

Carroll Island(2)
176 Carroll Island Road
Baltimore, MD 21220

Cockeysville(3)
9840 York Road
Cockeysville, MD 21030

Columbia(2)(5)
8835 Centre Park Drive, Suite 100
Columbia, MD 21045

Dundalk(2)
7860 Wise Avenue
Baltimore, MD 21222

Easton(1)
8662 Alicia Drive
Easton, MD 21601

Ellicott City(3)
10065 Baltimore National Pike
Ellicott City, MD 21042

Glen Burnie(3)
305 South Crain Highway
Glen Burnie, MD 21061

Hickory(3)
1403 Conowingo Road
Bel Air, MD 21014

Loch Raven(1)
1641 East Joppa Road
Baltimore, MD 21286

Odenton(1)(5)
1600 Annapolis Road
Odenton, MD 21113

Owings Mills(1)
4800 Painters Mill Road
Owings Mills, MD 21117

Perry Hall(1)(5)
8843 Belair Road
Perry Hall, MD 21236

Pikesville(1)
1013 Reisterstown Road
Baltimore, MD 21208

Pikesville Drive-Thru(2)(4)
1100 Reisterstown Road
Baltimore, MD 21208

Severna Park(2)
366A Gov Ritchie Highway
Severna Park, MD 21146

Westminster(1)
1010 Baltimore Boulevard
Westminster, MD 21157

White Marsh(1)
10101 Philadelphia Road
White Marsh, MD 21237

Woodlawn(3)
7007 Security Boulevard
Baltimore, MD 21244

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* For our branch hours and remote ATM locations, please refer to our website at www.1stmarinerbank.com.

(1) Company owns branch

(2) Company leases branch

(3) Company owns branch, but leases related land

(4) Office is a satellite branch

(5) Closing in 2013

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We operate mortgage offices at the following locations:

Maryland:

Annapolis(2)
2661 Riva Road
Annapolis, MD 21401

Bel Air(2)
303 South Main Street
Bel Air, MD 21014

Bethesda(2)
6903 Rockledge Dr., Ste 525
Bethesda, MD 20817

Canton/Headquarters(1)
3301 Boston Street
Baltimore, MD 21224

Easton(1)
8662 Alicia Drive
Easton, MD 21601

Eldersburg(2)
1912 Liberty Rd., Bldg II, Ste 3
Sykesville, MD 21784

Ellicott City(3)
10065 Baltimore National Pike
Ellicott City, MD 21042

Rockville(2)
15722 Crabbs Branch Way
Rockville, MD 20855

Salisbury(2)
601 E. Naylor Mill Rd., Ste B
Salisbury, MD 21804

Severna Park(2)
838 Ritchie Highway
Severna Park, MD 21146

Solomon's Island(2)
13940 H. G. Trueman Road
Solomon's Island, MD 20688

Waldorf(2)
3050 Crain Highway
Waldorf, MD 20601

White Marsh(1)
10101 Philadelphia Road
White Marsh, MD 21237

Delaware:

Seaford(2)
22350 Sussex Highway
Seaford, DE 19973

Virginia:

Alexandria(2)
211 North Patrick Street
Alexandria, VA 22314

Landsdowne(2)
19301 Winmeade Drive Ste 200
Landsdowne, VA 20176

North Carolina:

VA Mortgage(2)
203 Wolf Creek Professional Center
Havelock, NC 28532

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(1) Company owns office

(2) Company leases office

(3) Company owns office, but leases related land

The Bank's branches range in total size from 2,000 to 4,000 square feet and mortgage offices generally range in size from 1,200 to 2,000 square feet. We believe that all of our locations are suitable and adequate to conduct business and support growth in customer and transaction volume.

For more information on our lease commitments and costs, see Note 6 of the Notes to Consolidated Financial Statements, included in Item 8 of Part II of this Annual Report on Form 10-K.

ITEM 3 LEGAL PROCEEDINGS

We are party to certain legal actions that are routine and incidental to our business. In management's opinion, the outcome of these matters, individually or in the aggregate, will not have a material effect on our results of operations or financial position.

ITEM 4 MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

ITEM 5 MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Common Stock

First Mariner's common stock is quoted on the OTCBB under the symbol "FMAR." Currently, there are approximately 3,900 holders of record of First Mariner common stock. On March 15, 2013, the closing sales price of First Mariner common stock was $0.84 per share.

The table below sets forth for the periods indicated the low and high market prices of the common stock.

	Low	High
2012 Quarter ended:		
Fourth quarter	$ 0.46	$ 1.11
Third quarter	0.43	0.64
Second quarter	0.38	0.70
First quarter	0.14	0.61
2011 Quarter ended:		
Fourth quarter	$ 0.05	$ 0.30
Third quarter	0.16	0.74
Second quarter	0.23	0.81
First quarter	0.39	1.05

We do not pay cash dividends on our shares of common stock. Currently, we have no plans to pay cash dividends on our common stock. For a discussion of the limitations on First Mariner's ability to pay dividends, see Item 1 of Part I of this Annual Report on Form 10-K under the heading "Supervision and Regulation."

Equity Compensation Plan Information

The following table sets forth the securities authorized for issuance under the Company's equity compensation plans as of December 31, 2012:

Plan Category	(A) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(B) Weighted-average exercise price of oustanding options, warrants, and rights	(C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))
Equity compensation plans approved by security holders	589,478	$ 6.12	1,653,416
Equity compensation plans not approved by security holders			
Total	589,478	$ 6.12	1,653,416

Issuer Purchases of Equity Securities

None.

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ITEM 6 SELECTED FINANCIAL DATA

	2012	2011	2010	2009	2008
	(dollars in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Net interest income	$ 31,946	$ 28,182	$ 29,838	$ 27,112	$ 28,440
Provision for loan losses	2,572	14,330	17,790	11,660	10,856
Noninterest income	55,486	23,249	28,192	28,271	17,227
Noninterest expense	68,580	67,951	67,498	67,834	65,252
Income tax expense (benefit)	163	(606)	19,131	(10,887)	(13,632)
(Loss) income from discontinued operations(1)			(200)	(9,060)	1,721
Net income (loss)	16,117	(30,244)	(46,589)	(22,284)	(15,088)
Consolidated Statements of Financial Condition Data:					
Total assets	$ 1,377,529	$ 1,179,017	$ 1,309,637	$ 1,384,551	$ 1,307,497
Loans receivable, net	610,396	701,751	811,687	890,951	978,696
Allowance for loan losses	11,434	13,801	14,115	11,639	16,777
Deposits	1,186,830	1,014,760	1,121,889	1,146,504	950,233
Long-term borrowings	73,515	73,698	33,888	95,672	177,868
Junior subordinated deferrable interest debentures	52,068	52,068	52,068	73,724	73,724
Stockholders' (deficit) equity	(8,372)	(25,412)	3,746	26,987	46,015
Per Share Data:					
Number of shares of common stock outstanding at year end	18,860,482	18,860,482	18,050,117	6,452,631	6,452,631
Net income (loss) per common share Basic and Diluted	$ 0.85	$ (1.62)	$ (3.15)	$ (3.45)	$ (2.36)
Performance and Capital Ratios:					
Return on average assets	1.31%	(2.50)%	(3.43)%	(1.69)%	(1.16)%
Return on average equity	NM(2)	NM(2)	NM(2)	(53.81)%	(24.37)%
Net interest margin	3.14%	3.03%	2.91%	2.43%	2.74%
Average equity to average assets	(1.27)%	(0.91)%	2.86%	3.15%	4.78%
Leverage ratio (Bank)	3.8%	3.0%	4.7%	6.2%	5.8%
Tier I capital to risk-weighted assets (Bank)	6.1%	4.2%	6.8%	7.9%	6.8%
Total capital to risk-weighted assets (Bank)	7.3%	5.5%	8.0%	9.1%	8.8%
Asset Quality Ratios:					
Nonperforming assets to total assets	4.10%	5.25%	5.48%	4.15%	4.42%
Allowance for loan losses at year-end to:					
Total loans, net of unearned income	1.87%	1.97%	1.74%	1.31%	1.71%
Nonperforming assets and 90 day past-due loans	20.15%	20.23%	18.89%	17.46%	24.88%
Net charge-offs to average total loans, net of unearned income	0.75%	1.94%	1.80%	1.37%	1.35%

(1) Reflects (loss) income from discontinued operations of Mariner Finance.

(2) NM=not meaningful

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ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company

First Mariner Bancorp is a bank holding company incorporated under the laws of Maryland and registered under the federal Bank Holding Company Act of 1956, as amended. First Mariner Bancorp's business is conducted primarily through its wholly-owned subsidiary, First Mariner Bank. The Company had over 590 employees (approximately 580 full-time equivalent employees) as of December 31, 2012.

The Bank, with assets exceeding $1.3 billion as of December 31, 2012, is engaged in the general commercial banking business, with particular attention and emphasis on the needs of individuals and small to mid-sized businesses, and delivers a wide range of financial products and services that are offered by many larger competitors. The Bank's primary market area for its core banking operations, which consist of traditional commercial and consumer lending, as well as retail and commercial deposit operations, is central Maryland and portions of Maryland's eastern shore. Products and services of the Bank include traditional deposit products, a variety of consumer and commercial loans, residential and commercial mortgage and construction loans, wire transfer services, nondeposit investment products, and Internet banking and similar services. Most importantly, the Bank provides customers with access to local Bank officers who are empowered to act with flexibility to meet customers' needs in an effort to foster and develop long-term loan and deposit relationships. The Bank is an independent community bank and its deposits are insured by the FDIC.

First Mariner Mortgage, a division of the Bank, engages in mortgage-banking activities, providing mortgages and associated products to customers and selling most of those mortgages into the secondary market. First Mariner Mortgage had assets of $404.3 million and $183.0 million as of December 31, 2012 and December 31, 2011, respectively, and generated revenue of $60.0 million and $17.4 million, respectively, for the years ended December 31, 2012 and 2011. It recognized income before income taxes of $37.8 million and $6.3 million during 2012 and 2011, respectively. Origination volume during 2012 was $2.5 billion compared to $1.1 billion in 2011. During 2012, 42% of the originations were made in the state of Maryland, 17% in the immediately surrounding states and the District of Columbia, and the remaining 41% in other states throughout the country. First Mariner Mortgage has offices in Maryland, Delaware, Virginia, and North Carolina. See Note 19 to the Consolidated Financial Statements included in Item 8 of Part II of this Annual Report on Form 10-K for more detailed information on the results of our mortgage-banking operations.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and follow general practices within the industry in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the consolidated financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. When applying accounting policies in such areas that are subjective in nature, management

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must use its best judgment to arrive at the carrying value of certain assets and liabilities. Below is a discussion of our critical accounting policies.

Securities

We designate securities into one of three categories at the time of purchase. Debt securities that we have the intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Debt and equity securities are classified as trading if bought and held principally for the purpose of sale in the near term. Trading securities are reported at estimated fair value, with unrealized gains and losses included in earnings. Debt securities not classified as held to maturity and debt and equity securities not classified as trading securities are considered available for sale and are reported at estimated fair value, with unrealized gains and losses reported as a separate component of stockholders' deficit, net of tax effects, in accumulated other comprehensive loss.

AFS securities are evaluated periodically to determine whether a decline in their value is other than temporary. The term "other than temporary" is not intended to indicate a permanent decline in value. Rather, it means that the prospects for near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the security.

The initial indications of OTTI for both debt and equity securities are a decline in the market value below the amount recorded for a security and the severity and duration of the decline. In determining whether an impairment is other than temporary, we consider the length of time and the extent to which the market value has been below cost, recent events specific to the issuer, including investment downgrades by rating agencies and economic conditions of its industry, our intent to sell the security, and if it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. For marketable equity securities, we also consider the issuer's financial condition, capital strength, and near-term prospects. For debt securities and for perpetual preferred securities that are treated as debt securities for the purpose of OTTI analysis, we also consider the cause of the price decline (general level of interest rates and industry- and issuer-specific factors), the issuer's financial condition, near-term prospects and current ability to make future payments in a timely manner, the issuer's ability to service debt, and any change in agencies' ratings at evaluation date from acquisition date and any likely imminent action. Once a decline in value is determined to be other than temporary, the security is segmented into credit- and noncredit-related components. Any impairment adjustment due to identified credit-related components is recorded as an adjustment to current period earnings, while noncredit-related fair value adjustments are recorded through accumulated other comprehensive loss. In situations where we intend to sell or it is more likely than not that we will be required to sell the security, the entire OTTI loss is recognized in earnings.

Gains or losses on the sales of securities are calculated using a specific-identification basis and are determined on a trade-date basis. Premiums and discounts on securities are amortized (accreted) over the term of the security using methods that approximate the interest method. Gains and losses on trading securities are recognized regularly in income as the fair value of those securities changes.

Loans

Allowance for loan losses

Our allowance for loan losses represents an estimated amount that, in management's judgment, will be adequate to absorb probable incurred losses on existing loans. Management uses a disciplined process and methodology to establish the allowance for losses each quarter. The allowance for loan losses consists of an allocated component and an unallocated component. To determine the total allowance for loan losses, we estimate the reserves needed for each loan class, including loans analyzed individually and loans analyzed on a pooled basis

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To determine the allocated component of the allowance account, loans are pooled by loan class and losses are modeled using historical experience over the loss emergence period. The models and assumptions used to determine the allowance are validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The unallocated allowance for loan losses represents environmental factors applied to each loan class and is based upon management's evaluation of various conditions that are not directly measured in the determination of the formula and other allocated allowances.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds timely to changes in economic conditions and other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses.

Management monitors differences between estimated and actual incurred loan losses utilizing charge-off history. Loans deemed uncollectible are charged against, while recoveries are credited to, the allowance. Management adjusts the level of the allowance through the provision for loan losses, which is recorded as a current period operating expense.

Commercial (including commercial mortgages) and construction loans (including both commercial and consumer) are generally evaluated for impairment when the loan becomes 90 days past due and/or is rated as substandard. The difference between the fair value of the collateral, less estimated selling costs and the carrying value of the loan is charged off at that time. Residential mortgage loans are generally charged down to their fair value when the loan becomes 120 days past due or is placed in nonaccrual status, whichever is earlier. Consumer loans are generally charged off when the loan becomes 120 days past due or when it is determined that the amounts due are uncollectible (whichever is earlier). The above charge-off guidelines may not apply if the loan is both well secured and in the process of collection. These charge-off policies have not changed in the last three years.

As an additional portion of the allowance for loan losses, we also estimate probable losses related to unfunded loan commitments. These commitments are subject to individual review and are analyzed for impairment the same as a correspondent loan.

Impairment

We determine a loan to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. In general, impaired loans consist of nonaccrual loans and troubled debt restructures ("TDR" or "TDRs"). We do not consider a loan impaired during a period of delay in payment if we expect to collect all amounts due, including interest past due. Generally we consider a period of delay in payment to include delinquency up to 90 days, but may extend this period if the loan is collateralized by residential or commercial real estate with a low LTV ratio, and where collection and repayment efforts are progressing. We evaluate our commercial, commercial mortgage, commercial construction, and consumer construction classes of loans individually for impairment. We evaluate larger groups of smaller-balance homogeneous loans, which include our residential mortgage, home equity and second mortgage, and other consumer classes of loans, collectively for impairment.

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We identify impaired loans and measure impairment (1) at the present value of expected cash flows discounted at the loan's effective interest rate, (2) at the observable market price, or (3) at the fair value of the collateral if the loan is collateral dependent. If our measure of the impaired loan is less than the recorded investment in the loan, we record a charge-off for the deficiency unless it's a TDR, for which we recognize an impairment loss through an allocated portion of the allowance for loan losses.

When the ultimate collectability of an impaired loan's principal is in doubt, wholly or partially, all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are applied to interest income, to the extent any interest has been foregone, and then they are recorded as recoveries of any amounts previously charged off. When this doubt no longer exists, cash receipts are applied under the contractual terms of the loan agreement.

Nonaccrual status

For smaller consumer loans, we place loans in nonaccrual status when they are contractually past due 90 days as to either principal or interest, unless the loan is well secured and in the process of collection, or earlier, when, in the opinion of management, the collection of principal and interest is in doubt. For all commercial loans, larger loans, and certain mortgage loans, management applies Financial Accounting Standards Board ("FASB") guidance on impaired loan accounting to determine accrual status. Under that guidance, when it is probable that we will be unable to collect all payments due, including interest, we place the loan in nonaccrual status. A loan remains in nonaccrual status until the loan is current as to payment of both principal and interest and the borrower demonstrates the ability to pay and remain current. Specifically, in order for a nonaccrual loan to be returned to accrual status, a borrower must make six consecutive monthly payments and the borrower must demonstrate the ability to keep the loan current going forward. When a loan is partially charged off, the remaining balance remains in nonaccrual status.

As a result of our ongoing review of the loan portfolio, we may classify loans as nonaccrual even though the presence of collateral or the borrower's financial strength may be sufficient to provide for ultimate repayment. In general, loans are charged off when a loan or a portion thereof is considered uncollectible. We determine that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date. Interest and fees continue to accrue on past due loans until the date the loan goes in nonaccrual status.

Income recognition

Interest income on loans is accrued at the contractual rate based on the principal outstanding. Loan origination fees and certain direct loan origination costs are deferred and amortized as a yield adjustment over the contractual loan terms or until the date of sale or disposition. Accrual of interest is discontinued when its receipt is in doubt, which typically occurs when a loan becomes impaired. Any interest accrued to income in the year when interest accruals are discontinued is generally reversed. Management may elect to continue the accrual of interest when a loan is in the process of collection and the estimated fair value of the collateral is sufficient to satisfy the principal balance and accrued interest. Payments on nonaccrual loans are applied to principal. See additional information on loan impairment and nonaccrual status above.

Real estate acquired through foreclosure

We record real estate acquired through foreclosure at the lower of cost or market value ("LCM") on the acquisition date and at the lower of such initial amount or estimated fair value less estimated selling costs thereafter. Estimated fair value is based upon many subjective factors, including location and condition of the property and current economic conditions, among other things. Because the

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calculation of fair value relies on estimates and judgments relating to inherently uncertain events, results may differ from our estimates.

Write-downs at the time of transfer are made through the allowance for loan losses. Write-downs subsequent to transfer are included in our noninterest expenses, along with operating income, net of related expenses of such properties and gains or losses realized upon disposition.

Income taxes

Deferred income taxes are recognized for the tax consequences of temporary differences between financial statement carrying amounts and the tax bases of assets and liabilities. Deferred income taxes are provided on income and expense items when they are reported for financial statement purposes in periods different from the periods in which these items are recognized in the income tax returns. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based upon consideration of available evidence, including tax planning strategies and other factors.

The calculation of tax liabilities is complex and requires the use of estimates and judgment since it involves the application of complex tax laws that are subject to different interpretations by us and the various tax authorities. These interpretations are subject to challenge by the tax authorities upon audit or to reinterpretation based on management's ongoing assessment of facts and evolving case law.

Periodically and in the ordinary course of business, we are involved in inquiries and reviews by tax authorities that normally require management to provide supplemental information to support certain tax positions we take in our tax returns. Uncertain tax positions are initially recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. As of December 31, 2012 and 2011, we maintained a valuation allowance against the full amount of our deferred tax assets. Management believes it has taken appropriate positions on its tax returns, although the ultimate outcome of any tax review cannot be predicted with certainty. No assurance can be given that the final outcome of these matters will not be different than what is reflected in the current and historical financial statements.

We recognize interest and penalties related to income tax matters in income tax expense.

Other financial instruments carried at fair value

We record certain financial instruments at fair value (other than those described above), which inherently require assumptions and judgments in their valuation. Such financial instruments include LHFS, IRLCs, forward sales of mortgage-backed securities, and warrants.

LHFS

Loans originated for sale are carried at fair value. Fair value is determined based on outstanding investor commitments or, in the absence of such commitments, on current investor yield requirements or third party pricing models. Gains and losses on loan sales are determined using the specific-identification method and are recognized through mortgage-banking revenue in the Consolidated Statement of Operations.

IRLCs

We engage an experienced third party to estimate the fair market value of our IRLCs, which are valued based upon mandatory pricing quotes from correspondent lenders less estimated costs to process

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and settle the loan. Fair value is adjusted for the estimated probability of the loan closing with the borrower. Gains and losses are recognized through mortgage-banking revenue in the Consolidated Statements of Operations.

Forward sales of mortgage-backed securities

Fair value for forward sales of mortgage-backed securities is determined based upon the quoted market values of the securities. Gains and losses are recognized through mortgage-banking revenue in the Consolidated Statements of Operations.

Warrants

The fair value of warrants is calculated using the Black-Scholes-Merton option-pricing model.

Results of Operations and Financial Condition

The following discussion compares our financial condition at December 31, 2012 to the financial condition at December 31, 2011 and results of operations for the years ended December 31, 2012, 2011, and 2010. This discussion should be read in conjunction with our accompanying financial statements and related notes as well as statistical information included elsewhere in this Annual Report on Form 10-K.

Performance Overview

We recorded net income of $16.1 million for 2012 compared to a net loss of $30.2 million for 2011, with diluted earnings per share totaling $0.85 for 2012 compared to diluted losses per share of $1.62 in 2011.

We realized significant improvement in our mortgage-banking operations during 2012. Volume significantly increased as did the spreads we realized on loan sales.

Our total classified assets and delinquencies improved during 2012, which reduced the required amount of our allowance for loan losses from $13.8 million at December 31, 2011 to $11.4 million at December 31, 2012. We experienced significantly fewer charge-offs in real estate loans as real estate collateral values improved during 2012. We also experienced fewer foreclosures in 2012.

In general, a bank's primary source of revenue is net interest income which, in our case, increased $3.8 million in 2012 compared to 2011, primarily due a decrease in the rates paid on time deposits.

Noninterest income increased $32.2 million due primarily to our robust mortgage-banking operations during 2012. Net OTTI improved by $378,000 from 2011 to 2012. We recognized a $1.3 million loss on the disposal of premises and equipment when we restructured our office space. We experienced decreases in all other noninterest income categories.

Total expenses increased primarily due to compensation expense related to mortgage-banking operations and to an increase in corporate insurance as renewal rates increased in 2012. Additionally, we converted our core processing system to a new system in October of 2012 and mailing to customers regarding the conversion contributed to increased postage expense. These increases were significantly offset by reductions in other expenses that were the result of cost-cutting measures taken in 2012.

Return on average assets, the quotient of net income divided by total average assets, measures how effectively we utilize the Company's assets to produce income. Our return on average assets was 1.31% for 2012 compared to (2.50)% for 2011.

Our total assets increased by $198.5 million, or 16.8%, during 2012, primarily a result of increased LHFS. Earning assets increased $136.9 million, or 14.3%, from $959.1 million in 2011 to $1.1 billion in

2012. Deposits increased by $172.1 million and short- and long-term borrowings increased by $5.3 million from December 31, 2011 to December 31, 2012. Stockholders' deficit decreased $17.0 million, reflecting the 2012 earnings and improvements in other comprehensive losses.

Our asset quality showed some improvement from 2011 to 2012 as our level of NPAs decreased from $61.9 million at December 31, 2011 to $56.5 million at December 31, 2012. At December 31, 2012, our allowance for loan losses amounted to $11.4 million, which totaled 20.1% of NPAs plus loans past due 90 days or more as of December 31, 2012 compared to 20.2% as of December 31, 2011. Our level of NPAs amounted to 4.1% of total assets at December 31, 2012 compared to 5.3% of total assets at December 31, 2011. Our ratio of net charge-offs to average total loans was 0.8% in 2012 compared to 1.9% in 2011.

Bank capital adequacy levels (as defined by banking regulation) improved from 2011 to 2012, reflecting the 2012 earnings; the Bank was considered "undercapitalized" at December 31, 2012 as opposed to "significantly undercapitalized" as of December 31, 2011. As of December 31, 2012, the Bank's leverage, Tier I capital to risk-weighted assets, and total capital to risk-weighted assets ratios were 3.8%, 6.1%, and 7.3%, respectively, compared to 3.0%, 4.2%, and 5.5%, respectively, at December 31, 2011. As a result of being below "well capitalized" levels, the Bank is under various operating restrictions and mandates in accordance with agreements with regulators as described in additional detail later in this Item under "Capital Resources."

Results of Operations

Net Interest Income/Margins

Our primary source of earnings is net interest income, which is the difference between the interest income we earn on interest-earning assets, such as loans and securities, and the interest expense we pay on interest-bearing sources of funds, such as deposits and borrowings. Net interest income is a function of several factors, including changes in the volume and mix of interest-earning assets and funding sources, and market interest rates. While management policies influence these factors, external forces, including customer needs and demands, competition, the economic policies of the federal government, and the monetary policies of the FRB, are also determining factors.

Net interest income for 2012 increased by $3.8 million to $31.9 million compared to $28.2 million for 2011 primarily due to a decrease in the rates paid on time deposits.

The net interest margin is the key performance measure for our net interest income. Our net interest margin is affected by our loan pricing, our mix of earning assets, levels of NPAs, and our distribution and pricing of deposits and borrowings. Our net interest margin (net interest income divided by average earning assets) increased to 3.14% for 2012, compared to 3.03% for 2011.

Interest income

Total interest income increased by $227,000 from 2011 to 2012 due primarily to an increase in the level of average earning assets of $86.7 million, partially offset by a decrease in the yields on earning assets from 5.11% to 4.70%. Yields on earning assets continue to be affected by the level of NPAs and corresponding interest reversals and low rate environment.

Average loans outstanding decreased by $91.3 million. We experienced decreases in all loan segments due primarily to our continued efforts to improve the quality of our loan portfolio as well as due to a weak real estate market, which has led to the reduction of new real estate loans.

Average LHFS increased $187.1 million, due to significantly higher origination volumes. Average securities decreased by $6.4 million. During 2012, we purchased $41.6 million in securities in order to better utilize our liquidity.

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Interest expense

Interest expense decreased by $3.5 million to $15.8 million for 2012 compared to $19.3 million for 2011. We experienced a decrease in the average rate paid on interest-bearing liabilities, from 1.75% for 2011 to 1.40% for 2012. The decrease in the average rate paid was primarily a result of a decrease in the rate paid on time deposits from 1.99% to 1.45% due to a decreased rate environment and our reduction in rates offered due to our high level of liquidity. The rate decrease was partially offset by a slight increase in average interest-bearing liabilities.

Average interest-bearing deposits increased by $21.8 million due to additional deposits from our national nonbrokered time deposit program (see description later in this Item under "Deposits") combined with increases in savings and money market accounts. An increase in average borrowings of $4.0 million was due primarily to increased FHLB borrowings. We experienced a slight increase in the costs of borrowed funds from 2.16% for 2011 to 2.21% for 2012.

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The table below sets forth the average balances, net interest income and expense, and average yields and rates for our interest-earning assets and interest-bearing liabilities for 2012, 2011, and 2010.

	2012			2011			2010		
	Average Balance	Interest(1)	Yield/ Rate	Average Balance	Interest(1)	Yield/ Rate	Average Balance	Interest(1)	Yield/ Rate
	(dollars in thousands)								
ASSETS									
Loans(2):									
Commercial	$ 50,855	$ 2,693	5.30%	$ 63,433	$ 3,398	5.36%	$ 76,738	$ 3,997	5.21%
Commercial mortgage	301,916	17,996	5.96%	337,955	20,749	6.14%	351,001	21,900	6.24%
Commercial construction	52,365	2,956	5.64%	55,698	3,167	5.69%	76,663	4,029	5.26%
Consumer construction	17,362	787	4.53%	22,851	1,043	4.56%	40,650	2,178	5.36%
Residential mortgage	115,414	6,270	5.43%	130,885	6,934	5.30%	155,438	8,741	5.62%
Consumer	124,084	5,252	4.23%	142,477	6,398	4.49%	152,497	7,070	4.64%
Total loans	661,996	35,954	5.43%	753,299	41,689	5.53%	852,987	47,915	5.62%
LHFS	276,959	10,327	3.73%	89,812	3,813	4.25%	108,634	4,911	4.52%
Securities, trading and AFS	35,900	1,213	3.38%	42,333	1,567	3.70%	27,705	1,917	6.92%
Interest-bearing deposits	34,711	240	0.69%	37,328	438	1.17%	27,912	478	1.71%
Restricted stock investments, at cost	6,947			7,036			7,661		
Total earning assets	1,016,513	47,734	4.70%	929,808	47,507	5.11%	1,024,899	55,221	5.39%
Allowance for loan losses	(13,389)			(14,657)			(13,051)		
Cash and other nonearning assets	227,998			294,397			346,744		
Total assets	$ 1,231,122	47,734		$ 1,209,548	47,507		$ 1,358,592	55,221	
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY									
Interest-bearing deposits:									
NOW	$ 5,567	46	0.83%	$ 6,182	17	0.27%	$ 7,405	47	0.63%
Savings	58,453	252	0.43%	57,450	112	0.19%	56,271	152	0.27%
Money market	138,764	763	0.55%	127,584	715	0.56%	140,067	875	0.62%
Time	753,580	10,901	1.45%	743,309	14,819	1.99%	823,248	19,752	2.40%
Total interest-bearing deposits	956,364	11,962	1.25%	934,525	15,663	1.68%	1,026,991	20,826	2.03%
Borrowings	173,477	3,826	2.21%	169,496	3,662	2.16%	176,786	4,557	2.58%
Total interest-bearing liabilities	1,129,841	15,788	1.40%	1,104,021	19,325	1.75%	1,203,777	25,383	2.11%
Noninterest-bearing demand deposits	101,727			103,201			107,119		
Other noninterest-bearing liabilities	15,128			13,276			8,862		
Stockholders' (deficit) equity	(15,574)			(10,950)			38,834		
Total liabilities and stockholders' (deficit) equity	$ 1,231,122	15,788		$ 1,209,548	19,325		$ 1,358,592	25,383	
Net interest income/net interest spread		$ 31,946	3.30%		$ 28,182	3.36%		$ 29,838	3.28%
Net interest margin(3)			3.14%			3.03%			2.91%

(1) There are no tax equivalency adjustments

(2) The average balances of nonaccrual loans for the years ended December 31, 2012, 2011, and 2010, which are included in the average loan balances for these years, were $36.4 million, $40.1 million, and $47.2 million, respectively.

(3) Net interest margin is calculated as net interest income divided by average earning assets

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The "Rate/Volume Analysis" (1) below indicates the changes in our net interest income as a result of changes in volume and rates. We maintain an asset and liability management policy designed to provide a proper balance between rate-sensitive assets and rate-sensitive liabilities to attempt to optimize interest margins while providing adequate liquidity for our anticipated needs.

	2012 Compared to 2011			2011 Compared to 2010		
	Change Due to Variance In			Change Due to Variance In		
	Rates	Volume	Total	Rates	Volume	Total
	(dollars in thousands)					
INTEREST INCOME						
Loans:						
Commercial	$ (38)	$ (667)	$ (705)	$ 111	$ (710)	$ (599)
Commercial mortgage	(591)	(2,162)	(2,753)	(346)	(805)	(1,151)
Commercial construction	(23)	(188)	(211)	310	(1,172)	(862)
Consumer construction	(8)	(248)	(256)	(286)	(849)	(1,135)
Residential mortgage	173	(837)	(664)	(485)	(1,322)	(1,807)
Consumer	(353)	(793)	(1,146)	(218)	(454)	(672)
Total loans	(840)	(4,895)	(5,735)	(914)	(5,312)	(6,226)
LHFS	(517)	7,031	6,514	(286)	(812)	(1,098)
Securities, trading and AFS	(129)	(225)	(354)	(1,112)	762	(350)
Interest-bearing deposits	(169)	(29)	(198)	(175)	135	(40)
Total interest income	(1,655)	1,882	227	(2,487)	(5,227)	(7,714)
INTEREST EXPENSE						
Interest-bearing deposits:						
NOW	31	(2)	29	(23)	(7)	(30)
Savings	138	2	140	(43)	3	(40)
Money market	(14)	62	48	(86)	(74)	(160)
Time	(4,120)	202	(3,918)	(3,133)	(1,800)	(4,933)
Total interest-bearing deposits	(3,965)	264	(3,701)	(3,285)	(1,878)	(5,163)
Borrowings	77	87	164	(713)	(182)	(895)
Total interest expense	(3,888)	351	(3,537)	(3,998)	(2,060)	(6,058)
Net interest income	$ 2,233	$ 1,531	$ 3,764	$ 1,511	$ (3,167)	$ (1,656)

(1) Changes in interest income and interest expense that result from variances in both volume and rates have been allocated to rate and volume changes in proportion to the absolute dollar amounts of the change in each.

Noninterest Income

We derive noninterest income principally from mortgage-banking activities, service fees on our deposit accounts, ATM fees, commissions on sales of nondeposit investment products ("brokerage fees"), and income from BOLI. Our noninterest income for the year ended December 31, 2012 totaled $55.5 million, compared to $23.2 million for the year ended December 31, 2011, an increase of $32.2 million.

Mortgage-banking revenue increased from $13.6 million in 2011 to $49.7 million in 2012 due to significantly increased originations for both refinances and sales. The volume of loans sold increased from $1.1 billion in 2011 to $2.3 billion in 2012. In addition, the spreads we realized on the sales of mortgage loans significantly improved for 2012 compared to 2011.

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We recognized $758,000 in gains on sales of AFS securities during 2011, whereas in 2012, we did not sell any securities. During 2012, we recognized $460,000 in net OTTI charges on AFS securities, compared to $838,000 recorded in 2011. See "Securities" discussion later in this Item for more information on these OTTI charges and the related securities.

We experienced decreases in all other noninterest income categories. During 2012, we moved a portion of our operations to a building we own on Boston Street and wrote off a significant amount of furniture, fixtures, and leasehold improvements related to our previous location.

The following table shows the detail of our noninterest income for the years ended December 31:

	2012	2011	2010
	(dollars in thousands)		
Net OTTI charges on AFS securities	$ (460)	$ (838)	$ (1,249)
Mortgage-banking revenue	49,682	13,595	16,950
ATM fees	2,617	3,046	3,038
Gain on debt exchange			958
Service fees on deposits	2,563	2,945	3,944
Gain on financial instruments carried at fair value			1,661
Gain on sale of AFS securities, net		758	54
(Loss) gain on disposal of premises and equipment	(1,271)		67
Commissions on sales of nondeposit investment products	256	437	496
Income from BOLI	1,122	1,291	1,415
Other	977	2,015	858
	$ 55,486	$ 23,249	$ 28,192

Noninterest Expense

Our noninterest expense increased $629,000, or 0.9%, to $68.6 million compared to $68.0 million for 2011.

Compensation expense increased $888,000 due primarily to mortgage-banking operations.

Occupancy and furniture and equipment expenses decreased primarily due to office consolidation and the sublet of remaining office space. Service and maintenance expense increased due to expenses incurred to get the new space ready for occupancy.

Included in professional services expenses were continued high costs for regulatory compliance, loan workouts, and capital raise efforts, although to a lesser degree in 2012. Consulting costs increased primarily due to our capital raise efforts.

Write-downs, losses, and costs of real estate acquired through foreclosure decreased to $6.5 million from $7.8 million in 2011 and loan collection costs also decreased due to decreased classified loans and loan workouts.

Corporate insurance expense increased as the renewal rates increased during 2012. Advertising expense increased primarily due to our mortgage-banking division's direct mail campaign, which also contributed to the increase in postage costs. Postage expense also increased due to customer mailings related to our system conversion and overnight delivery expenses increased due to the increased mortgage-banking loan origination volume.

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The following table shows the detail of our other noninterest expense for the years ended December 31:

	2012	2011	2010
	(dollars in thousands)		
Office supplies	$ 573	$ 440	$ 468
Printing	406	308	406
Marketing/promotion	838	755	951
Overnight delivery/courier	622	392	436
Security	270	230	270
Dues and subscriptions	461	378	407
Director fees	354	332	313
Employee education and training	112	57	94
Automobile expense	108	109	135
Travel and entertainment	289	237	173
Other	1,805	1,853	2,593
	$ 5,838	$ 5,091	$ 6,246

Income Tax Expense (Benefit)

Due to prior period operating losses and the uncertainty surrounding future profitability, we have established a valuation allowance against the full amount of our deferred taxes. The establishment of the valuation allowance does not preclude the company from realizing these assets in the future.

We recorded income tax expense of $163,000 on net income before taxes of $16.3 million, which represents Federal Alternative Minimum Tax expense, net of certain state credits, and resulted in an effective tax rate of 1.0% for 2012. We recorded an income tax benefit of $606,000 on a net loss before taxes of $30.9 million, resulting in an effective tax rate of (2.0)% for 2011. The tax benefit in 2011 was the result of a refundable income tax credit.

The Bank has earned significant state tax incentives totaling $5.5 million through its participation in the One Maryland Economic Development ("One Maryland") and Job Creation Tax Credit programs. We will realize the benefits of the incentives in our reported earnings as the credits can be utilized, in accordance with accounting standards that govern the recognition of investment tax credits. The amount of the credit that we can utilize will largely be determined by the level of Maryland taxable income for the Bank only, and will be recognized as a reduction in our income tax expense. During 2012, 2011, and 2010, we utilized $362,000, $606,000, and $600,000, respectively, in credits related to this incentive program as a portion of the credits earned are funded regardless of taxable income levels. Any unused One Maryland credits can be carried forward and will expire in 2016. The Job Creation Tax Credit can be carried forward for five years.

Financial Condition

At December 31, 2012, our total assets were $1.4 billion compared to $1.2 billion at December 31, 2011, an increase of 16.8%, primarily a result of increased LHFS. Earning assets increased $136.9 million, or 14.3%, from $959.1 million in 2011 to $1.1 billion in 2012. Deposits increased by $172.1 million and short- and long-term borrowings increased by $5.3 million from December 31, 2011 to December 31, 2012. Stockholders' deficit decreased $17.0 million, reflecting the 2012 earnings and improvements in accumulated other comprehensive losses.

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Securities

We utilize the securities portfolio as part of our overall asset/liability management practices to enhance interest revenue while providing necessary liquidity for the funding of loan growth or deposit withdrawals. We continually monitor the credit risk associated with investments and diversify the risk in the securities portfolios. As of December 31, 2012 and 2011, we held $57.7 million and $22.7 million, respectively, in securities classified as AFS.

Our securities portfolio at December 31, 2012 was comprised of marketable securities. The maturity structure of our securities portfolio is significantly influenced by the level of prepayment activity on mortgage-backed securities. At December 31, 2012, the average duration of our securities portfolio was 2.3 years, slightly longer than the average duration of 2.0 years at December 31, 2011, primarily due to the purchase of longer-term securities in 2012 as well as an increase in the projected lives of our mortgage-backed securities.

AFS securities increased $35.0 million from December 31, 2011. During 2012, we purchased $41.6 million in AFS securities in order to utilize some of our excess liquidity. We recorded $460,000 in net OTTI charges related to pooled trust preferred securities during 2012, compared to $838,000 in 2011. Overall market values of securities have improved as evidenced by a net unrealized loss on securities classified as AFS of $1.9 million at December 31, 2012 compared to a net unrealized loss of $3.0 million at December 31, 2011.

Changes in current market conditions, such as interest rates and the economic uncertainties in the mortgage, housing, and banking industries have severely impacted the securities market. The secondary market for various types of securities has been limited and has negatively impacted security values. Quarterly, we review each security in our AFS portfolio to determine the nature of any decline in value and evaluate if any impairment should be classified as OTTI. As of December 31, 2012 and 2011, we determined that OTTI had occurred with respect to four of our pooled trust preferred securities.

The trust preferred securities we hold in our securities portfolio were issued by other banks, bank holding companies, and insurance companies. As mentioned above, certain of these securities have experienced declines in credit ratings from credit rating firms, which have devalued these specific securities. While some of these issuers have reported weaker financial performance since acquisition of these securities, in management's opinion, they continue to possess acceptable credit risk. We monitor the actual default rates and interest deferrals for possible losses and contractual shortfalls of interest or principal, which could warrant further recognition of impairment.

All of the remaining securities that are impaired are so due to declines in fair values resulting from changes in interest rates or increased credit/liquidity spreads compared to the time they were purchased. We have the intent to hold these securities to maturity and it is more likely than not that we will not be required to sell the securities before recovery of value. As such, management considers the impairments to be temporary.

Our total investment in trust preferred securities, corporate obligations, common equity securities, and mutual funds totaled $11.2 million as of both December 31, 2012 and 2011.

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Our AFS securities portfolio composition was as follows as of December 31:

	2012	2011	2010	2009	2008
	(dollars in thousands)				
Mortgage-backed securities	$ 7,134	$ 1,959	$ 2,325	$ 11,742	$ 22,248
Trust preferred securities	9,181	10,268	10,464	13,338	12,866
U.S. government agency notes	33,537	8,518	12,071		
U.S. Treasury securities	5,781	1,004	1,001	1,003	1,003
Corporate obligations			1,010	930	2,548
Equity securities banks	1,256	151	197	162	251
Equity securities mutual funds	787	782	758	750	
Foreign government bonds				350	750
	$ 57,676	$ 22,682	$ 27,826	$ 28,275	$ 39,666

The amortized cost, estimated fair values, and weighted average yields of debt securities at December 31, 2012, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay obligations. Equity securities are excluded as they have no stated maturity.

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Weighted-Average Yield
		(dollars in thousands)			
Mortgage-backed securities:					
Due after ten years	$ 7,040	$ 169	$ 75	$ 7,134	3.69%
Trust preferred securities:					
Due one to five years	1,019			1,019	8.00%
Due after ten years	10,227	79	2,144	8,162	5.78%
U.S. government agency notes:					
Due within one year	9,000	33		9,033	1.05%
Due one to five years	24,435	74	5	24,504	1.35%
U.S. Treasury securities:					
Due within one year	4,002			4,002	0.19%
Due one to five years	1,777	2		1,779	1.41%
	$ 57,500	$ 357	$ 2,224	$ 55,633	2.42%

Weighted yields are based on amortized cost. Mortgage-backed securities are assigned to maturity categories based on their final maturity.

LHFS

We originate residential mortgage loans for sale on the secondary market. At December 31, 2012 and 2011, such LHFS amounted to $404.3 million and $183.0 million, respectively.

When we sell mortgage loans we make certain representations to the purchaser related to loan ownership, loan compliance and legality, and accurate documentation, among other things. If a loan is found to be out of compliance with any of the representations subsequent to the date of purchase, we may be required to repurchase the loan or indemnify the purchaser for losses related to the loan, depending on the agreement with the purchaser. In addition other factors may cause us to be required to repurchase or "make-whole" a loan previously sold.

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The most common reason for a loan repurchase is due to a documentation error or disagreement with an investor or on rare occasions for fraud. Repurchase requests are negotiated with each investor at the time we are notified of the demand and an appropriate reserve is taken at that time. Repurchase and or "make-whole" requests are initially negotiated by the secondary marketing department and monitored by the secondary marketing committee where most disagreements are resolved with no reserve requirement or loss to the Company. In the event there is an unresolved repurchase or "make-whole" request, the loan is managed by the secondary marketing committee and is elevated to be monitored by the mortgage overview committee to determine the final settlement terms with the investor. Repurchases amounted to $1.6 million and $517,000 during 2012 and 2011, respectively. Our reserve for potential repurchase losses was $484,000 and $660,000 as of December 31, 2012 and 2011, respectively. These reserves were calculated based upon an analysis of the specific loans in question. We do not expect increases in repurchases or related losses to be a growing trend nor do we see it having a significant impact on our financial results.

Loans

Our loan portfolio is expected to produce higher yields than investment securities and other interest-earning assets; the absolute volume and mix of loans and the volume and mix of loans as a percentage of total earning assets is an important determinant of our net interest margin.

Approximately 83% of our loans receivable are to customers located in the state of Maryland. Loans are extended only after evaluation of customers' creditworthiness and other relevant factors using mortgage industry standard underwriting criteria. For residential mortgage loans, we generally follow Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC"), FHA, VA, or other secondary marketing standard underwriting guidelines. Conventional mortgage loans with an LTV ratio greater than 80% generally require mortgage insurance. Loans underwritten to FHA or VA guidelines generally have LTV's greater than 95% and have Mortgage Insurance Guarantees from the U.S. Government. For all other loans with real estate collateral, we generally do not lend more than 90% of the appraised value of a property at origination. In addition, we generally obtain personal guarantees of repayment from our borrowers and/or others for commercial (including commercial mortgage) and construction (both commercial and consumer) loans and disburse the proceeds of construction and similar loans only as work progresses on the related projects.

We consider our residential lending to generally involve less risk than other forms of lending, although our payment experience on these loans is dependent, to some extent, on economic and market conditions in our primary lending area. In 2012 and 2011, loss levels on residential mortgage, home equity, and second mortgage loans were significant due to the declines in residential real estate values and higher defaults experienced in these portfolios. Commercial (including commercial mortgage) and construction (both commercial and consumer) loan repayments are generally dependent on the operations of the related properties or the financial condition of the borrower or guarantor. Accordingly, repayment of such loans can be more susceptible to adverse conditions in the real estate market and the regional economy. We experienced significant losses in both 2012 and 2011 in these loan segments as well.

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The following table sets forth the composition of our loan portfolio as of December 31:

	2012	Percent of Total	2011	Percent of Total	2010	Percent of Total
	(dollars in thousands)					
Commercial	$ 47,907	7.9%	$ 52,842	7.5%	$ 78,801	9.7%
Commercial mortgage	263,714	43.2%	326,530	46.5%	349,411	43.1%
Commercial construction	49,902	8.2%	54,349	7.8%	58,764	7.2%
Consumer construction	18,837	3.1%	16,280	2.3%	30,792	3.8%
Residential mortgage	111,345	18.2%	121,119	17.3%	144,209	17.8%
Consumer	118,691	19.4%	130,631	18.6%	149,710	18.4%
Total loans	$ 610,396	100.0%	$ 701,751	100.0%	$ 811,687	100.0%

	2009	Percent of Total	2008	Percent of Total
	(dollars in thousands)			
Commercial	$ 77,634	8.7%	$ 91,111	9.3%
Commercial mortgage	339,794	38.1%	319,143	32.6%
Commercial construction	99,490	11.2%	109,484	11.2%
Consumer construction	47,379	5.3%	69,589	7.1%
Residential mortgage	176,159	19.8%	138,323	14.1%
Consumer	150,495	16.9%	251,046	25.7%
Total loans	$ 890,951	100.0%	$ 978,696	100.0%

Total loans decreased $91.4 million during 2012. We experienced lower balances in all loan types, with the exception of consumer construction loans, which increased $2.6 million. We remained focused on improving asset quality to improve our capital ratios.

Approximately 41.0% and 42.5% of our loans had adjustable rates (including adjustable-rate first mortgage loans indexed to either U.S. Treasury obligations or LIBOR and variable home equity lines of credit tied to the Prime interest rate) as of December 31, 2012 and 2011, respectively. Our variable-rate loans adjust to the current interest rate environment, whereas fixed rates do not allow this flexibility. If interest rates were to increase in the future, our interest earned on the variable-rate loans would improve, and if rates were to fall, the interest we earn on such loans would decline, thus impacting our interest income. Some variable-rate loans have rate floors and/or ceilings which may delay and/or limit changes in interest income in a period of changing rates. See our discussion in "Interest Rate Sensitivity" later in this Item for more information on interest rate fluctuations.

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The following table sets forth the maturity distribution for our loan portfolio at December 31, 2012. Some of our loans may be renewed or repaid prior to maturity. Therefore, the following table should not be used as a forecast of our future cash collections.

	In one year or less		Maturing After 1 through 5 years		After 5 years		
	Fixed	Variable	Fixed	Variable	Fixed	Variable	Total
	(dollars in thousands)						
Commercial	$ 23,841	$ 4,979	$ 14,485	$ 2,651	$ 124	$ 1,827	$ 47,907
Commercial mortgage	110,466	16,276	70,710	26,598	24,440	15,224	263,714
Commercial construction	17,586	15,550	11,576	1,019	3,074	1,097	49,902
Consumer construction	14,490		3,131		1,216		18,837
Residential mortgage	691	1,546	3,155	7,309	27,224	71,420	111,345
Consumer	3,349	5,813	6,567	42,256	23,867	36,839	118,691
Total loans	$ 170,423	$ 44,164	$ 109,624	$ 79,833	$ 79,945	$ 126,407	$ 610,396

Commercial Construction Portfolio

Our commercial construction portfolio consists of construction and development loans for commercial purposes and includes loans made to builders and developers of residential real estate projects. Of the total included above as of December 31, 2012, $22.8 million represents loans made to borrowers for the development of residential real estate. This segment of the portfolio has exhibited greater weakness (relative to our other loan portfolios) during 2012 and 2011 due to overall weakness in the residential housing sector.

The breakdown of the portion of the commercial construction portfolio made to borrowers for residential real estate is as follows as of December 31:

	2012	2011
	(dollars in thousands)	
Raw residential land	$ 5,001	$ 5,931
Residential subdivisions	3,888	4,171
Single residential lots	2,045	3,005
Single family construction	1,978	3,351
Townhome construction		209
Multi-family unit construction	9,860	