FIRST MARINER BANCORP
Form 10-K
March 29, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2003.

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)
3301 Boston 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:
COMMON STOCK, par value $0.05 per share
(Title of Class)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such report, and (2) has been subject to such filing requirements for the past 90 days. 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 in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in

Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) 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 $45.350 million. Shares of Common Stock owned by each officer, director and holder of 5% or more of the outstanding common stock have been included as such persons are deemed to be affiliates

The number of shares of common stock outstanding as of March 18, 2004 is 5,726,151 shares.

Documents incorporated by reference:

Proxy Statement Part III

FIRST MARINER BANCORP

Annual Report on Form 10-K
December 31, 2003

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FORWARD-LOOKING STATEMENTS

Part I and Part II of this Annual Report on Form 10-K may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Readers of this report should be aware of the speculative nature of "forward-looking statements." Statements that are not historical in nature, including the words "anticipate," "estimate," "should," "expect," "believe," "intend," and similar expressions, are based on current expectations, estimates and projections about (among other things) the industry and the markets in which the Company operates; they are not guarantees of future performance. Whether actual results will conform to expectations and predictions is subject to known and unknown risks and uncertainties, including risks and uncertainties discussed in this Form 10-K, general economic, market or business conditions; changes in interest rates, deposit flow, the cost of funds, and demand for loan products and financial services; changes in our competitive position or competitive actions by other companies; changes in the quality or composition of loan and investment portfolios; the ability to mange growth; changes in laws or regulations or policies of federal and state regulators and agencies; and other circumstances beyond the Company's control. Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated will be realized, or if substantially realized, will have the expected consequences on the Company's business or operations. Except as required by applicable laws, we do not intend to publish updates or revisions of any forward-looking statements we make to reflect new information, future events or otherwise. For a discussion of risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements, see "Risk Factors" filed as Exhibit 99.1 to this Form 10-K.

PART I

ITEM 1 BUSINESS

General

First Mariner Bancorp ("First Mariner", on a parent only basis, and "we", "our" or "us", on a consolidated basis) is a financial holding company whose business is conducted primarily through its wholly-owned operating subsidiaries, First Mariner Bank (the "Bank") and Finance Maryland LLC ("Finance Maryland"). The Bank, which was formed in 1995 through mergers of several local financial institutions, serves central Maryland, portions of Maryland's Eastern Shore and portions of Virginia. The Bank is headquartered in Baltimore City.

First Mariner Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The bank is an independent community bank engaged in the general commercial banking business, with particular attention and emphasis on the needs of individuals and small to mid-sized businesses. The Bank 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, non-deposit 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.

Finance Maryland, formed in July 2002, engages in traditional consumer finance activities, making small direct cash loans to individuals, the purchase of installment loan sales contracts from local merchants and retail dealers of consumer goods, and loans to individuals via direct mail solicitations. Finance Maryland currently operates 10 branches in the State of Maryland and 3 branches in the state of Delaware, which operate under the trade name "Finance Delaware". Finance Maryland had loan receivables of $21.6 million as of December 31, 2003.

Since our formation in 1995, our business strategy has focused on development of an operational and retail distribution infrastructure to create a platform to support the generation of assets and deposits. At our inception we had 20 employees, four full service branches and two ATM's in the Baltimore region, with total assets of $35.2 million, loans of $20.4 million, and deposits of $24.6 million. Since that time, we have grown assets at an average compound annual growth rate of 48%. At December 31, 2003, we had 639 employees, 23 full service bank branches, 14 mortgage loan offices, 13 consumer finance offices, and approximately 201 ATMS (48 owned by us and 153 available to our customers through third party agreements) with total assets of $1.058 billion, loans of $609.8 million and deposits of $747.7 million. We earned net income for the twelve month period ending December 31, 2003 of $5.3 million.

We are not dependent on any single customer or small group of customers and we do not experience any material seasonal variations in its business. We do not conduct any foreign operations.

Our executive offices are located at 3301 Boston Street, Baltimore, Maryland 21224 and our telephone number is (410) 342-2600. We maintain internet sites located at www.1stmarinerbank.com, www.1stmarinerbancorp.com, www.1stmarinermortgage.com and www.financemaryland.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, and 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 as soon as reasonably practicable after we have filed them with the Securities and Exchange Commission. The information on the website listed above is not and should not be considered part of this annual report on Form 10-K and is not incorporated by reference in this document.

Our Business Strategy

Our initial strategy involved building a network of banking branches, mortgage loan offices, and ATMs to capture market share and build a community franchise for our stockholders, customers and employees. Having developed this infrastructure, we are now focused on growing assets and earnings by capitalizing on the broad network of Bank branches, mortgage offices, consumer finance offices and ATMs that we established during our infrastructure expansion phase.

To continue asset growth and profitability, our marketing strategy is targeted to:

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;

Pursue commercial lending opportunities with small to mid-sized businesses that are underserved by our larger competitors;

Develop innovative financial products and services to generate additional sources of revenue;

Cross-sell our products and services to our existing customers to leverage relationships and enhance our profitability;

Review our branch performance from time to time to evaluate possible consolidations that may increase our efficiency; and

Adhere to rigorous credit standards to maintain the continued quality of our assets as we implement our growth strategy.

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 are usually 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 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. Computerized on-line banking is currently available to our commercial customers.

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 from young persons to senior citizens. In addition to traditional products and services, we offer contemporary products and services, such as debit cards, mutual funds and annuities, and Internet banking and electronic bill payment 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, unsecured personal credit lines and the debit card.

Mortgage Banking. Our mortgage banking business is structured to provide a source of fee income largely from the process of originating product for sale on the secondary market, as well as the origination of loans to be held in our loan portfolio. Mortgage banking capabilities include the Federal Housing Administration ("FHA") and the federal Veterans Administration ("VA"), conventional and nonconforming mortgage underwriting, and construction and permanent financing. We intend to improve our competitive position in this market by streamlining the mortgage underwriting process through the introduction of advanced technology, and development of new products to meet our customers' needs.

Consumer Finance. We offer a wide variety of consumer finance products through Finance Maryland, which was formed in July 2002, and is currently focused on building market share by offering competitive products and services, delivered by experienced personnel who provide responsive service. Loan sizes are generally smaller than those originated by the Bank (approximately $2,200).

Community Reinvestment Act. We have a strong commitment to our responsibilities under the federal Community Reinvestment Act (the "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 by participating in loan programs sponsored or guaranteed by the United States Small Business Administration, the FHA, the VA, the federal Community Development Act, the Maryland Industrial Development Financing Authority, and the Settlement Expense Loan Program.

Our Lending Activities

Loan Portfolio Composition. At December 31, 2003, our loan portfolio totaled $609.8 million, representing approximately 57.7% of our total assets of $1.058 billion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the year ended December 31, 2003 for more detailed information concerning the composition of our loan portfolio.

Commercial Loans. We originate secured and unsecured loans for business purposes. Less than one percent of all our commercial loans are unsecured. We make 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.

Real Estate Development and Construction Loans. We provide interim real estate acquisition development and construction loans to builders, developers, and persons who will ultimately occupy their single family dwellings. Our real estate development and construction loans provide interim financing on properties and are generally made for 80% or less of the appraised value of the property, taking into consideration private mortgage insurance. Our 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.

Loans we provide to individuals for the construction of their primary residences are typically secured by the property under construction, frequently include additional collateral (such as second mortgage on the borrower's present home), and commonly have maturities of 9 to

12 months.

Loans provided by us to residential builders are for the construction of residential homes for which a binding sales contract exists and the prospective buyers have been pre-qualified for permanent mortgage 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.

We secure 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 pre-construction sale information.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the year ended December 31, 2003 for more detailed information concerning our real estate development and construction lending.

Residential Real Estate Mortgage Loans. Our mortgage division originates adjustable and fixed-rate residential mortgage loans. Our mortgage loans are generally originated under terms, conditions and documentation acceptable to the secondary mortgage market. We will place some of these loans into our portfolio, although the vast majority are eventually sold to investors.

Commercial Real Estate Mortgage Loans. We originate 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, our commercial mortgages generally have maturities of ten years or less.

We seek to reduce the risks associated with commercial mortgage lending by generally lending in our market area and obtaining periodic financial statements and tax returns from our borrowers. It is also our general policy to obtain personal guarantees from the principals of the borrowers and assignments of all leases related to the collateral.

Consumer Loans. We offer a variety of consumer loans. These loans are 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 80% of the appraised value, less the amount of any existing prior liens on the property and generally have maximum terms of 10 years, although we do offer a 90% loan to value product. The interest rates on our closed-end home equity loans are generally fixed, while interest rates on our home equity lines of credit are variable. We also offer a wide variety of consumer finance products through Finance Maryland. Loans made by Finance Maryland are generally for terms less than five years, carry a fixed rate of interest, and are generally secured by consumer goods, including automobiles.

Our Credit Administration Process

Our lending activities are subject to written policies approved by our 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 under-performing 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 the guarantor, the related collateral and the effects of economic conditions.

The Bank's loan approval policy provides for various levels of individual lending authority. The maximum lending authority granted to any one individual is $500,000. Our loan committee of the Board of Directors is authorized to approve loans up to our banking subsidiary's legal lending limit, which currently approximates $11.6 million as of December 31, 2003. We have established an in-house limit of $3.0 million, which is reviewed periodically by the Board of Directors, and do have loans to a limited number of customers in excess of that amount.

We generally do not make loans 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.

Finance Maryland's lending activities are subject to written policies approved by our Board of Directors. Our loans are subject to a well-defined credit process that includes a credit evaluation of the borrower and the adequacy of available collateral. Finance Maryland's loan policy provides various levels of individual lending authority. Finance Maryland purchases installment sales contracts from dealers applying the same criteria. Dealers are subject to pre-approval due diligence and must have a proven track record with management.

Our Competition

We operate in a competitive environment, competing for deposits and loans with commercial banks, thrifts, finance 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 banks in our market area have occurred recently, requiring us to compete with banks and finance companies with greater resources.

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 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, 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 customers' needs, we will arrange for those services to be provided by other financial institutions with which we have a relationship.

Current banking laws facilitate interstate branching and merger activity among banks. Since September, 1995, certain bank holding companies are authorized to acquire banks throughout the United States. In addition, on and after June 1, 1997, certain banks are permitted to merge with banks organized under the laws of different states. These changes have resulted 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.

Supervision and Regulations

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

Federal Financial Holding Company Regulation and Structure. First Mariner is a financial holding company within the meaning of the Bank Holding Company Act of 1956, as amended, and as such, it is subject to regulation, supervision, and examination by the Board of Governors of the Federal Reserve System. First Mariner is required to file annual and quarterly reports with the Federal Reserve and to

provide the Federal Reserve with such additional information as the Federal Reserve may require. The Federal Reserve may conduct examinations of First Mariner and its subsidiaries.

With certain limited exceptions, First Mariner is required to obtain prior approval from the Federal Reserve before acquiring direct or indirect ownership or control of more than 5% of any voting securities or substantially all of the assets of a bank or bank holding company, or before merging or consolidating with another bank holding company. In acting on applications for such approval, the Federal Reserve must consider various statutory factors, including among others, the effect of the proposed transaction on competition in the relevant geographical and product markets, each party's financial condition and management resources and record of performance under the CRA. Additionally, with certain exceptions any person proposing to acquire control through direct or indirect ownership of 25% or more of any voting securities of First

Mariner is required to give 60 days written notice of the acquisition to the Federal Reserve, which may prohibit the transaction, and to publish notice to the public.

With prior approval of the Federal Reserve, First Mariner may acquire more than 5% of the assets or outstanding shares of a company engaging in nonbank activities determined by the Federal Reserve to be closely related to the business of banking or of managing or controlling banks. Under current Federal Reserve regulations, such permissible nonbank activities include mortgage banking, equipment leasing, securities brokerage and consumer and commercial finance company operations.

First Mariner's subsidiary bank is subject to certain quantitative and qualitative restrictions on extensions of credit to the financial holding company or its subsidiaries, investments in its securities, and the use of its securities as collateral for loans to any borrower. These regulations and restrictions may limit the ability to obtain funds from First Mariner's subsidiary bank for its cash needs including funds for the payment of dividends, interest and operating expenses. Further, a financial holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services. For example, a bank may not generally require a customer to obtain other services from itself or its affiliates, and may not require that a customer promise not to obtain other services from a competitor as a condition to and extension of credit to the customer. The Federal Reserve has ended the anti-tying rules for financial holding companies and their non-banking subsidiaries. Such rules were retained for banks.

Under Federal Reserve 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 the Federal Reserve may charge the financial 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. 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.

State Bank Holding Company Regulation. As a Maryland bank holding company, First Mariner is subject to various restrictions on its activities as set forth in Maryland law, in addition to those restrictions set forth in federal law. Under Maryland law, a bank holding company that desires to acquire a bank or bank holding company that has its principal place of business in Maryland must obtain approval from the Maryland Commissioner of Financial Regulation. Also, a bank holding company and its Maryland chartered bank or trust company cannot directly or indirectly acquire

banking or nonbanking subsidiaries or affiliates until the bank or trust company receives the approval of the Maryland Commissioner.

Federal and State Bank Regulation. First Mariner's banking subsidiary is a Maryland chartered trust company, with all the powers of a commercial bank regulated and examined by the Maryland Commissioner and the FDIC. The FDIC has extensive enforcement authority over the institutions it regulates to prohibit or correct activities that violate law, regulation or written agreement with the FDIC. Enforcement powers also regulate activities that are deemed to constitute unsafe or unsound practices. Enforcement actions may include the appointment of a conservator or receiver, the issuance of a cease and desist order, the termination of deposit insurance, the imposition of civil money penalties on the institution, its directors, officers, employees and institution-affiliated parties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the removal of or restrictions on directors, officers, employees and institution-affiliated parties, and the enforcement of any such mechanisms through restraining orders or other court actions.

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

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

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

Before establishing new branch offices, the Bank must meet certain minimum capital stock and surplus requirements. With each new branch located outside the municipal area of the Bank's principal banking office, these minimal levels increase by $120,000 to $900,000, based on the population size of the municipal area in which the branch will be located. Prior to establishment of the branch, the Bank must obtain Commissioner and FDIC approval. If establishment of the branch involves the purchase of a bank building or furnishings, the total investment in bank buildings and furnishings cannot exceed, with certain exceptions, 50% of the Bank's unimpaired capital and surplus.

Financial Services Modernization

Effective in pertinent part on March 11, 2000, the federal Gramm-Leach-Bliley Act ("GLBA") revises the federal Bank Holding Company Act of 1956 and repeals the affiliation provisions of the federal Glass-Steagall Act of 1933, which, taken together, limited the securities, insurance, and other non-banking activities of any company that controls a FDIC insured financial institution. Under GLBA, bank holding companies can elect, subject to certain qualifications, to become a "financial holding company." First Mariner made an election to become a financial holding company in 2002 and, as such, First Mariner may engage in activities that are in addition to the business of banking. The GLBA provides that a financial holding company may engage in a full range of financial activities, including insurance and securities sales and underwriting activities, real estate development, and, with certain exceptions, merchant banking activities, with new expedited notice procedures. GLBA also permits certain qualified national banks to form "financial subsidiaries," which have broad authority to engage in all financial activities except insurance underwriting, insurance investments, real estate investment or development, and merchant banking, and expands the potential activities of subsidiaries of state banks, subject to applicable state law. The GLBA may increase the competition we encounter.

Deposit Insurance

As a FDIC member institution, deposits of the Bank are currently insured to a minimum of $100,000 per depositor through the Savings Association Insurance Fund ("SAIF"), administered by the FDIC. Insured financial institutions are members of either SAIF or the Bank Insurance Fund ("BIF"). SAIF members generally are savings and loan associations or savings banks, including banks and trust companies that have converted from a savings and loan association or savings bank to a commercial bank or trust company or bank and trust companies that have acquired SAIF deposits. The Bank is a converted federal savings bank; therefore, its deposits are insured through SAIF. Mergers or transfers of assets between SAIF and BIF members generally are permitted with the assuming or resulting depository institution making payments of SAIF assessments on the portion of liabilities attributable to the SAIF-insured institution.

The FDIC is required to establish the semi-annual assessments for BIF- and SAIF-insured depository institutions at a rate determined to be appropriate to maintain or increase the reserve ratio of the respective deposit insurance funds at or above 1.25% of estimated insured deposits or at such higher percentage that the FDIC determines to be justified for that year by circumstances raising significant risk of substantial future losses to the fund. Assessments are made on a risk-based premium system with nine risk classifications based on certain capital and supervisory measures. Financial institutions with higher levels of capital and involving a low degree of supervisory concern are assessed lower premiums than financial institutions with lower levels of capital or involving a higher degree of supervisory concern.

Limits on Dividends and Other Payments

First Mariner's current ability to pay dividends is largely dependent upon the receipt of dividends from its banking subsidiary. 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 like the Bank if the depository institution is considered "undercapitalized" or if the payment of the dividend would make the institution "undercapitalized". See "Federal Deposit Insurance Corporation Improvement Act of 1991" below. We do not anticipate that such provisions will be applied to the Bank. The Federal Reserve has issued a policy statement which provides that, as a general matter, insured banks and bank holding companies may pay dividends only out of prior operating earnings. For a Maryland chartered bank or trust company, dividends may be paid out of undivided profits or, with the prior approval of the Commissioner, from surplus in excess of 100% of required capital stock. If however, the surplus of a Maryland bank is less than 100% of its required capital stock, cash dividends may not be paid in excess of 90% of net earnings. In addition to these specific restrictions, bank regulatory agencies also have the ability to prohibit proposed dividends by a financial institution which would otherwise be permitted under applicable regulations if the regulatory body determines that such distribution would constitute an unsafe or unsound practice.

Capital Requirements

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

A banking organization's risk-based capital ratio is obtained by dividing its qualifying capital by its total risk adjusted assets. The regulators measure risk-adjusted assets, which include off balance sheet items, against both total qualifying capital (the sum of Tier 1 capital and limited amounts of Tier 2 capital) and Tier 1 capital. "Tier 1", or core capital includes common equity, perpetual preferred stock (excluding auction rate issues), trust preferred securities (subject to certain limitations), and minority interest in equity accounts of consolidated subsidiaries (less goodwill and other intangibles), subject to certain exceptions. "Tier 2", or supplementary capital, includes, among other things limited-life preferred stock, hybrid capital instruments, mandatory convertible securities and trust preferred securities, qualifying and subordinated debt, and the allowance for loan and lease losses, subject to certain limitations and less required deductions. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies. Banks and bank holding companies, subject to the risk-based capital guidelines are required to maintain a ratio of Tier 1 capital to risk-weighted assets of at least 4% and a ratio of total capital to risk-weighted assets of at least 8%. The appropriate regulatory authority may set higher capital requirements when particular circumstances warrant. In addition to risk-based capital banks and bank holding companies are required to maintain a minimum amount of Tier 1 capital to fourth quarter average assets, referred to as the leverage capital ratio, of at least 4%. First Mariner and The Bank maintained capital ratios which exceeded these minimum standards. See "Management's Discussion and Analysis of Finance Condition and Results of Operations", for the year ended December 31, 2003 for more detailed information concerning capital adequacy.

Federal banking agencies have adopted regulations specifying that the agencies will include, in their evaluations of a Bank's capital adequacy, an assessment of the Bank's interest rate risk ("IRR") exposure. The standards for measuring the adequacy and effectiveness of a banking organization's interest rate risk management includes a measurement of board of director and senior management oversight, and a determination of whether a banking organization's procedures for comprehensive risk management are appropriate to the circumstances of the specific banking organization. The Bank maintains IRR models that are used to measure and monitor IRR. Additionally, the regulatory agencies have been assessing IRR on an informal basis for several years.

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

to grow and could restrict the amount of profits, if any, available for the payment of dividends to First Mariner.

Federal Deposit Insurance Corporation Improvement Act of 1991

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

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

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

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

Interstate Banking Legislation

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal") was enacted into law on September 29, 1994. Riegle-Neal authorized federal banking agencies to approve interstate bank merger transactions even if such transactions are prohibited by the laws of a state. An exception to such authorization arises if the home state of one of the banks that is a party to the merger transaction opted out of the merger provisions of Riegle-Neal by adopting a law after the date

of the enactment of the Riegle-Neal and prior to June 1, 1997. These laws must apply equally to all out-of-state banks and expressly prohibit merger transactions involving out-of-state banks. Riegle-Neal also permits interstate branch acquisitions if the laws of the state where the branch is located permits interstate branch acquisitions. The interstate merger and branch acquisitions permitted by Riegle-Neal are subject to nationwide and statewide insured deposit limitations as described in Riegle-Neal.

Riegle-Neal also authorizes the federal banking agencies to approve *de novo* interstate branching by national and state banks in states which specifically allow for such branching. To our knowledge, only two states, Texas and Montana, have opted out of the Riegle-Neal provisions relating to interstate mergers, acquisitions of branches and establishment of de novo branches. We anticipate that Riegle-Neal may increase competition within our market area, although we cannot predict the timing or the extent of such increased competition.

Privacy Legislation

Current Federal banking rules limit the ability of banks and other financial institutions to disclose non-public financial information about customers to non-affiliated third parties. Under these rules, financial institutions must provide initial notices to customers about their privacy policies that provide a description of the conditions under which they may disclose non-public personal information to non-affiliated third parties and affiliates. Institutions must also provide annual notices to current customers that provide a reasonable method for customers to "opt out" of disclosures to non-affiliated parties. These policies affect how customer information is transmitted through diversified financial companies and conveyed to third parties. We have implemented our privacy policies in accordance with the law.

USA Patriot Act

The USA Patriot Act of 2001 significantly increased the anti-money laundering and financial transparency laws to require additional due diligence for financial institutions. The law set standards for verifying customer information at account opening and maintenance of records, and created rules to promote cooperation among financial institutions, regulators and law enforcement in identifying parities that may be involved in terrorism or money laundering. The law requires non-financial businesses to report cash transactions in excess of $10,000 to the U.S. Treasury Department, and requires brokers and dealers to report suspicious customer activities.

Sarbanes-Oxley Legislation

The Sarbanes-Oxley Act of 2002 was enacted to address accounting oversight and corporate governance matters. Included in this legislation was the creation of a five member oversight board appointed by the SEC that will set standards for accountants and have investigative and disciplinary powers, prohibit accounting firms from providing various types of consulting services, and require the accounting firm to rotate partners among public clients every five years. The legislation also increased penalties for financial crimes, required expanded disclosure of corporate operations and internal controls and certifications of financial statements, and enhanced controls on insider trading and reporting. The Act also provided for statutory separation between investment bankers and investment analysts.

ITEM 2 PROPERTIES

We occupy executive offices located at 3301 Boston Street, Baltimore, Maryland. Currently, we lease approximately 58,000 square feet of space at this location. Annual rent for this space is approximately $1.1 million, of which $1.0 million is allocated for 55,000 square feet of office and $100,000 is allocated for 3,000 square feet of Bank branch space and drive-up banking and customer

parking facilities. We lease an operations facility at 1516 Baylis Street, Baltimore, Maryland. We occupy approximately 30,000 square feet of office space and 4,500 square feet of storage space at this location. Annual rent is approximately $330,000 for the office space and $75,000 for the storage space.

We operate retail bank branches at the following locations:*

Annapolis (2)
161 A Jennifer Road
Annapolis, MD 21401-7923

Bel Air (1)
12 A Bel Air South Parkway
Bel Air, MD 21015

Canton/Headquarters (2)
3301 Boston Street
Baltimore, MD 21224

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

Cockeysville (1)
9840 York Road
Baltimore, MD 21030

Crofton (1)
1049 MD Route 3
Gambrills, MD 21054

Downtown Baltimore (2)
16 S. Calvert Street
Baltimore, MD 21202-1305

Dundalk (2)

Lutherville/Timonium (2)
1738 York Road
Lutherville, MD 21093

Ocean City (2)
12505 Coastal Highway
Ocean City, MD 21842

Owings Mills (2)
60 Painters Mill Road
Owings Mills, MD 21117

Perry Hall (1)
8843 Bel Air Road
Perry Hall, MD 21236

Pikesville (1)
1013 Reisterstown Road
Baltimore, MD 21208-4207

Randallstown (1)
9833 Liberty Road
Randallstown, MD 21133-2034

Salisbury (2)
309 E. Main Street, Suite 101
Salisbury, MD 21801

Severna Park (2)

7860 Wise Avenue
Baltimore, MD 21222

Easton (2)
8133 Elliott Road
Easton, MD 21601

Ellicott City (1)
10065 Baltimore National Pike
Ellicott City, MD 21042

Glen Burnie (2)
7400 L. Gov. Ritchie Highway
Glen Burnie, MD 21061

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

366A Gov Ritchie Highway
Severna Park, MD 21146

Towson (1)
115 East Joppa Road
Baltimore, MD 21286-3113

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

Woodlawn (1)
7007 Security Boulevard
Baltimore, MD 21244-2514

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

(1) Bank owns branch

(2) Bank leases branch

For more information on our lease commitments and costs see Note 6 of the notes to the consolidated financial statements.

We operate mortgage offices at the following locations:

Annadale, VA (2)
7010 Little River Turnpike, Suite 140
Annadale, VA 22003

Annapolis (2)
2086 Generals Highway, 2nd Floor
Annapolis, MD 21401

Canton (VA Mortgage.Com) (2)
1516 Baylis Street
Baltimore, MD 21224

Canton/Headquarters (2)
3301 Boston Street
Baltimore, MD 21224

Crofton (1)
1049 MD Route 3, 2nd floor
Gambrills, MD 21054

Easton (2)
8133 Elliott Road

Fredericksburg, VA (2)
2515 Fall Hill Avenue
Fredericksburg, VA 22401

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

Ocean City (2)
12505 Coastal Highway
Ocean City, MD 21842

Prince Georges (2)
7905 Malcolm Road, Suite 101
Clinton, MD 20735

Salisbury (2)
309 E. Main Street, Suite 100
Salisbury, MD 21801

Waldorf (2)
3200 Crain Highway, Suite 102

Easton, MD 21601	Waldorf, MD 20603-4841
Eldersburg (2) 1912 Liberty Road, Bldg. 2 Eldersburg, MD 21784	
Ellicott City (1) 10065 Baltimore National Pike Ellicott City, MD 21042	

(1) Bank owns offices

(2) Bank leases offices

We operate consumer finance offices at the following locations which are leased by Finance Maryland:

Bel Air 225 Briarhill Place, Suite I-1 Bel Air, MD 21015	**Overlea** 7682 Belair Road Baltimore, MD 21236
Dundalk 1770 Merritt Blvd. Baltimore, MD 21222	**Salisbury** 319 B Civic Avenue Salisbury, MD 21804
Elkton 135 Big Elk Mall Elkton, MD 21921	**Woodlawn** 6666 Security Blvd., Suite 16 Baltimore, MD 21207
Frederick 454 Prospect Blvd Frederick, MD 21702	**Canton/Headquarters** 3301 Boston Street Baltimore, MD 21224
Glen Burnie 7400 Ritchie Highway, Suite E Glen Burnie, MD 21061	**Dover, Delaware** 222 S. Dupont Hwy, Ste. 101 Dover, DE 19901
Laurel 3421 Fort Meade Rd Laurel, MD 20707	**Seaford, Delaware** 1026 W. Stein Highway Seaford, DE 19973
Hagerstown 1423 Dual Hwy Hagerstown, MD 21740	**Bear, Delaware** 1831 Pulaski Highway Bear, DE 19701

Our bank branches range in total size from 2,000 to 4,000 square feet, mortgage offices from 1,200 to 2,000 square feet and our Finance Maryland offices from 800 to 1,600 square feet. All of our locations are suitable and adequate to conduct business and support growth in customer and transaction volume.

ITEM 3 LEGAL PROCEEDINGS

We are not a party to, nor is any of our property the subject of, any material pending legal proceedings incidental to our business other than those arising in the ordinary course of business. In the opinion of management no such proceeding will have a material adverse effect on our financial position or results of operations.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There was no submission of matters to a vote of securities holders during the fourth quarter of the year ended December 31, 2003.

ITEM 4A EXECUTIVE OFFICERS OF THE REGISTRANT

Edwin F. Hale, Sr. (age 57) has been Chairman and Chief Executive Officer of First Mariner and of the Bank since 1995.

Joseph A. Cicero (age 59) has been the President of First Mariner and Chief Operating Officer of the Bank since 1996.

George H. Mantakos (age 61) has been Executive Vice President of First Mariner, and the President of the Bank since 1995.

Mark A. Keidel (age 42) has been Senior Vice President and Chief Financial Officer of First Mariner and the Bank since June 2000. Prior to June 2000, Mr. Keidel was Senior Vice President and Chief Financial Officer of Mason Dixon Bancshares for the preceding five years.

PART II

ITEM 5 MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDERS MATTERS

Market for Common Stock

Our common stock trades on The Nasdaq National Market under the symbol "FMAR." The table below sets forth for the periods indicated the low and high market prices of our common stock as reported on The Nasdaq National Market. These over-the-counter market quotations reflect inter- dealer prices and do not include retail mark-up, mark-down or commissions, and they may not necessarily represent actual transactions. We currently have approximately 3,700 stockholders of record, and we did not pay a cash dividend in 2002 or 2003.

	Low	High
2003 Quarter ended:		
Fourth quarter	$ 15.00	$ 20.17
Third quarter	12.70	17.70
Second quarter	12.26	13.90
First quarter	11.19	12.70
2002 Quarter ended:		
Fourth quarter	$ 8.86	$ 11.44
Third quarter	9.95	12.50
Second quarter	9.70	12.93
First quarter	9.15	10.90

ITEM 6 SELECTED FINANCIAL DATA

	For the Year Ended December 31,				
	2003	2002	2001	2000	1999

	For the Year Ended December 31,				
	(Dollars in thousands except for per share data)				
Net Interest Income	$ 34,411	$ 30,988	$ 25,874	$ 21,020	$ 17,739
Provision For Loan Losses	2,536	2,175	1,625	1,105	785
Noninterest Income	21,086	14,994	10,741	8,923	7,176
Noninterest Expense	45,883	37,973	31,296	27,798	22,743
Net Income	5,307	3,904	2,304	640	877
Dividends per Common Share				0.02	0.06
Net Income per Common Share-Basic	0.97	0.73	0.58	0.20	0.28
Net Income per Common Share-Diluted	0.88	0.69	0.57	0.20	0.26
Total Assets	1,057,853	871,152	778,525	678,109	616,732
Loans Receivable, Net	601,155	526,777	463,141	425,657	326,206
Deposits	747,733	668,169	600,588	476,882	368,751
Long-term Borrowings and Repurchase Agreements	110,000	85,000	85,000	75,000	145,000
Stockholders' Equity	58,434	51,126	44,008	27,849	21,863
Allowance For Loan Losses	8,692	7,188	5,524	4,341	3,322
Net Chargeoffs	1,032	511	442	86	139
Nonperforming Assets to Total Assets	0.48%	0.40%	0.56%	1.00%	0.91%
Return On Average Assets	0.57%	0.49%	0.32%	0.10%	0.16%
Return On Average Equity	9.76%	8.20%	6.98%	2.85%	3.30%
Dividend Payout Ratio				10%	21%
Average Equity to Average Assets	5.83%	5.99%	4.65%	3.45%	4.79%
Regulatory Ratios					
Leverage	8%	8%	8%	6%	6%
Tier 1 Capital To Risk Weighted Assets	10%	10%	11%	9%	10%
Total Capital To Risk Weighted Assets	15%	13%	13%	12%	15%

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

About First Mariner Bancorp

We are a financial holding company incorporated under the laws of Maryland and registered under the federal Bank Holding Company Act of 1956, as amended. Our company was organized in 1994 and changed its name to First Mariner Bancorp in May 1995. Since 1995, our strategy has involved building a network of banking branches and ATMs to capture market share and build a community franchise for stockholders, customers and employees. We are focusing on growing assets and earnings by capitalizing on the broad network of Bank branches, mortgage offices, consumer finance offices, and ATMs established during our infrastructure expansion phase.

First Mariner Bank (the "Bank"), our only bank subsidiary, offers consumer and commercial banking and real estate lending services throughout central Maryland, the Eastern Shore of Maryland, and in portions of Virginia. Finance Maryland, LLC ("Finance Maryland"), is a wholly owned subsidiary, and offers traditional consumer finance products and services through its' branch network located in central Maryland, the Eastern Shore of Maryland, and Delaware. Branch locations in Delaware operate under the trade name of "Finance Delaware."

The following discussion compares our financial condition at December 31, 2003 to the financial condition at December 31, 2002 and results of operations for the years ended December 31, 2003, 2002 and 2001. This discussion should be read in conjunction with our accompanying financial statements and related notes as well as statistical information included in this report.

Application of Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principals generally accepted in the United States and follow general practices within the banking and financial services industry. The application of these accounting principles requires our management to make estimates, judgments, and assumptions based upon information available at the time the financial statements are prepared, and affect the amounts reported in the financial statements and the accompanying notes.

The most significant accounting policies we apply are discussed in note 1 to the consolidated financial statements of this document. These policies provide details on how certain assets and liabilities are valued in the financial statements and how those values are derived. Management believes that based upon the estimates, judgments and assumptions used to determine the allowance for loan losses, that this accounting estimate requires the most subjective and unpredictable judgments, and as such could be subject to revision as new information is available.

The determination of the amount of the Allowance for Loan Losses is considered by management as a critical accounting estimate, as it represents management's estimate of probable loan losses, and loans outstanding comprise 57.7% of our total assets as of December 31, 2003. The estimates used in the determination of our allowance for loan losses include estimated losses on pools of homogeneous loans, losses estimated on specifically identified loans, and consideration of current economic trends and conditions, all of which may change significantly over time. Note 1 to the consolidated financial statements describes the methodology used in determining the Allowance for Loan Losses and a detailed discussion of factors influencing possible changes in this critical accounting estimate is included in the Credit Risk Management and the Allowance for Loan Losses sections of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Performance Overview

We continued to achieve significant growth in loans and deposits while producing a record profit in 2003, leveraging our infrastructure to produce significant increases in revenue while maintaining the growth rate of our operating expenses. This resulted in higher levels of earnings and improved profitability, productivity and efficiency measures.

We recorded net income of $5.307 million for 2003 compared to $3.904 million for 2002, an increase of 35.9%, marking our highest net income for any year since First Mariner's formation, and the third consecutive year of record profits. Diluted earnings per share were also the highest in our history, totaling $.88 per share for 2003, an increase of 27.5% from $.69 per diluted share in 2002. The growth in net income and earnings per share resulted as our gross revenue (net interest income and non interest income) increased $9.515 million or 20.7%, while our noninterest expenses, the provision for loan losses, and income tax expense increased by $8.112 million or 19.3%.

Our largest category of revenue, net interest income, grew $3.423 million or 11.0% due to growth in average earning assets of 16.2%. Noninterest income increased $6.092 million or 40.6% due to higher levels of mortgage banking revenue, growth in deposit service charges and ATM fees, significant gains on sales of investment securities, higher income from bank-owned life insurance, and increased sales of credit and other insurance products. Core noninterest income (excluding gains on sales of investment securities) increased 36.0% and comprised 35.5% of total revenue of 2003 compared to 31.5% in 2002.

Our increase in total expenses resulted from higher noninterest expenses of $7.910 million and an increase in the provision for loan losses of $361,000. Non-interest expense growth was primarily the result of higher salaries and benefit costs, and increased occupancy and equipment expenses to support our growth as well as costs associated with our branch expansion and infrastructure development of Finance Maryland for the year. Also contributing to the increase in non-interest expenses were several non-recurring items relating to the redemption of our of trust preferred securities, professional expenses to secure state income tax credits, and the funding of a private charitable foundation. These non-recurring items totaled $1.385 million. Excluding the non-recurring items, our non-interest expense growth was $6.525 million or 17.2%. The increase in our provision for loan losses reflects the growth in loans, higher levels of net charge offs, and an increase in the allowance for loan losses to 1.43% of total loans as of December 31, 2003 from 1.35% as of December 31, 2002. Our effective tax rate decreased to 25.0% for 2003 compared to 33.1% for 2002, due to higher levels of tax-exempt interest income, higher income from bank-owned life insurance that is tax free, and the utilization of Maryland state and federal income tax credits we earned during 2003.

Our total assets increased by $186.701 million or 21.4%, reflecting significant increases in loans and deposits. Loans outstanding increased by $75.882 million or 14.2%, while our deposits grew by $79.564 million or 11.9%. Our growth statistics for loans and deposits continue to compare favorably to industry averages, and reflect our continued efforts in business development and advertising. Since our inception in 1995, total assets, loans, and deposits have all increased at an average annual compound growth rate of 48%. Stockholders' equity increased $7.308 million or 14.3% reflecting the retention of 2003's earnings, shares sold and issued under the employee stock purchase plan, and stock purchases exercised under option plans and warrants of $2.793 million.

We continued to enjoy favorable asset quality in 2003. Our allowance for loan losses was increased to $8.692 million and totaled 171.4% of nonperforming assets as of December 31, 2003, compared to 203.9% as of December 31, 2002. Our ratio of net chargeoffs to average total loans was 0.19% in 2003, compared to 0.10% in 2002. Our ratio of nonperforming assets to total assets increased to 0.48% at December 31, 2003 from 0.40% at December 31, 2002.

Capital adequacy levels remained strong, exceeding the levels we are required to maintain for "well-capitalized" status as defined by Banking regulation. December 31, 2003 ratios for our capital leverage, Tier 1 capital to risk weighted assets, and total capital to risk weighted assets were 7.7%, 10.2%, and 15.0%, respectively, compared to 7.8%, 9.9%, and 13.3%, respectively, at December 31, 2002. Our regulatory capital levels were strengthened by the increase in stockholders' equity and additional issuances of trust preferred securities.

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 investment securities, and the interest expense we pay on interest-bearing sources of funds, such as deposits and borrowings. The level of net interest income we earn is determined mostly by the average balances ("volume") and the rate spreads between our interest-earning assets and our funding sources.

Our net interest income increased to $34.411 million for 2003, an 11.0% increase from our net interest income of $30.988 million earned for 2002. The increase was attributable to growth in our average earning assets, which increased by $120.471 million or 16.2%. Our average loans and loans held for sale increased by 17.8% to $648.599 million and our average investments and other earning assets increased by 11.7% to $214.670 million. The increase we achieved in average loans reflects our expansion of commercial and real estate lending activities among middle market borrowers in the Baltimore Metropolitan area, the Bank's continued emphasis on consumer