

Letter to Our Shareholders

Dear Shareholders:

Carrollton Bancorp is pleased to provide you the 2001 Annual Report. The report summarizes the financial condition and operating results of your Company for the past three years. 2001 was a year that saw continued growth in those areas of the Company that we feel is our future, while at the same time saw shrinkage in those areas that we felt thwarted our growth in the past. The management team and employees are focused and have an unwavering commitment to make continual improvements to the Company and to excel at the options we provide to our customers. Carrollton Bancorp is poised for substantial growth in its commercial loan portfolio.

In keeping with the Company's strategic plan, management took several steps to address the reshaping of our balance sheet. In order to move into a less sensitive interest rate position and reduce our volatility to rate changes, the Bank sold \$37 million in residential fixed rate real estate loans in the 1st quarter of 2001. This resulted in a net loss of \$254,000. Additional reductions of the fixed rate residential real estate portfolio were accomplished through normal attrition. The total reduction to the residential mortgage portfolio was \$48 million. Proceeds of the first quarter sale and the normal payoffs of mortgages was used to fund the growth in the Company's commercial loan and commercial real estate portfolio. We also allowed the runoff of high yielding certificates of deposit totaling \$24 million by year end as another step in reducing our interest rate sensitivity.

Company earnings for 2001 were \$1.9 million, an 11% increase over 2000. Core earnings of the Company in 2001 continued to show improvement over the previous two years. In 1999, sale of the Merchant Services Division resulted in an \$823,000 gain or \$0.29 per share on an after tax basis, skewing the financial results for 1999. The mortgage loan sales and the 475 basis point downward rate change in the prime benchmark rate resulted in a \$4 million reduction in loan income, this was offset by the balance sheet reformation which reduced the funding costs and yielded a 1% increase in Net Interest Income over 2000.

As economic conditions and prevailing interest rates return to more traditional levels, Management's efforts to restructure the balance sheet will result in more favorable returns. As we await a return to more favorable economic conditions, we continue to address those issues that have hindered profitability. Beginning in 2001, the Company's lending focus switched from the traditional residential fixed rate assets to typical short-term adjustable rate commercial lending products. Growth of the commercial loan portfolio was 19% over 2000, although the overall loan portfolio was reduced. Our resources will continue to be focused on building a lending environment conducive to commercial lending growth.

Net interest margins on loan products have been compressed because of the recent volatility in interest rates. The rate reductions resulted in significant payoffs in the loan portfolio most particularly in residential mortgages, home equity loans and lines of credit. The reduction of the fixed rate long-term assets is favorable in reducing our volatility to interest rate changes, however reinvestment of these funds has been in lower yielding assets.

2001 also showed a reduction in our ATM locations. The Company elected to terminate its ATM agreement with Target Department Stores. Fifty-five ATM's were located in Maryland, Virginia, Pennsylvania and Delaware Target Stores. These ATM's did not add to the strategic initiatives of the Company. Eliminating the Target Store ATM's had an impact on "Other fees and Commissions" and "Other Operating Expenses". The net result is a slight reduction in operating expenses. The Company will continue its relationship with Wal-Mart/Sam's Clubs in Maryland, Virginia and West Virginia. Management also addressed concerns as to regulatory action regarding "ATM Convenience Fees", reassessing the depreciable life of the ATM network. The ATM business is highly susceptible to change and accelerating the depreciable life of the network, while it will add additional expense to the Company, is an appropriate action.

Management will continue its strategy of assessing the profitability of operational components and take appropriate steps to eliminate non-profitable business units, at the same time maintaining safe operating standards that provide appropriate levels of return for risk. We are positioning ourselves for the future, looking for the long-term improved performance of your Company. We are mindful that the Company must remain progressive and attuned to our customers' needs in order to compete in the rapidly changing environment of financial services. We are energized and excited by the myriad of opportunities that lie ahead. We are committed to the positive changes that we have begun, capitalizing on the opportunities that arise with changes in our industry and community and building shareholder value for the future.

Sincerely,

/s/ ALBERT R. COUNSELMAN

Albert R. Counselman
Chairman of the Board

/s/ ROBERT A. ALTIERI

Robert A. Altieri
President and Chief Executive Officer

Selected Financial Highlights

	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
CONSOLIDATED INCOME STATEMENT DATA:					
Interest income.....	\$23,832,624	\$26,726,048	\$22,255,896	\$20,359,202	\$19,593,582
Interest expense.....	<u>12,872,355</u>	<u>15,921,684</u>	<u>10,953,649</u>	<u>9,596,722</u>	<u>8,975,812</u>
Net interest income.....	10,960,269	10,804,364	11,302,247	10,762,480	10,617,770
Provision for loan losses.....	<u>550,000</u>	<u>448,000</u>	<u>597,840</u>	<u>615,000</u>	<u>240,000</u>
Net interest income after provision for loan losses..	10,410,269	10,356,364	10,704,407	10,147,480	10,377,770
Noninterest income.....	7,156,444	7,913,046	10,911,443	9,757,388	5,574,499
Noninterest expense.....	<u>14,817,504</u>	<u>15,945,347</u>	<u>17,864,554</u>	<u>15,826,736</u>	<u>13,135,227</u>
Income before income taxes.....	2,749,209	2,324,063	3,751,296	4,078,132	2,817,042
Income tax provision.....	<u>816,132</u>	<u>576,531</u>	<u>905,249</u>	<u>1,103,783</u>	<u>677,550</u>
Net income.....	<u>\$1,933,077</u>	<u>\$1,747,532</u>	<u>\$2,846,047</u>	<u>\$2,974,349</u>	<u>\$2,139,492</u>
CONSOLIDATED BALANCE SHEET DATA, AT YEAR END					
Assets.....	\$357,194,940	\$387,946,570	\$375,619,201	\$317,853,989	\$287,907,392
Loans, net of unearned income.....	220,539,017	278,019,898	260,005,257	210,800,847	170,834,248
Deposits.....	265,528,720	292,024,141	262,449,865	236,979,025	234,470,405
Stockholders' equity.....	32,648,304	30,482,004	29,884,577	30,872,528	29,792,234
PER SHARE DATA: (a)					
Number of shares of Common Stock outstanding, at year-end.....	2,701,254	2,707,733	2,776,904	2,829,488	2,908,550
Net income:					
Basic.....	\$0.71	\$0.64	\$1.01	\$1.04	\$0.73
Diluted.....	0.71	0.64	1.01	1.04	0.73
Cash dividends declared.....	0.3600	0.3550	0.3075	0.2850	0.2550
Book value, at year end.....	12.09	11.26	10.76	10.91	10.24
Performance and Capital Ratios:					
Return on average assets.....	0.51%	0.46%	0.85%	1.00%	0.78%
Return on average shareholders' equity.....	6.01	5.87	9.15	9.71	7.39
Net yield on interest earning assets (b).....	3.32	3.23	4.01	4.38	4.51
Average shareholders' equity to average total assets.....	8.56	7.85	9.26	10.32	10.51
Year-end capital to year-end risk-weighted assets:					
Tier 1.....	12.94	11.03	10.99	15.02	15.89
Total.....	14.32	12.17	12.38	16.75	17.14
Year-end Tier 1 leverage ratio.....	8.65	7.75	7.30	9.40	9.43
Cash dividend declared to net income.....	50.43	55.58	30.37	27.63	35.07
ASSETS QUALITY RATIOS:					

Allowance for loan losses, at year-end to:

Total loans, net of unearned income.....	1.51%	1.09%	1.09%	1.13%	1.35%
Nonperforming, restructured and past-due loans	276.13	119.19	201.3	111.0	222.49
Net charge-offs to average total loans, net of unearned income.....	0.10	0.09	0.07	0.28	0.11
Nonperforming, restructured and past-due loans to total loans, net of unearned income, at year-end.	0.55	0.91	0.54	1.02	0.61

- (a) Per share amounts and common shares outstanding have been adjusted to retroactively reflect the effect of a 5% stock dividend declared by the Board of Directors on January 22, 1998, as well as a stock split in the form of a 100% stock dividend declared July 22, 1999.
- (b) Interest on investments and loans is presented on a fully taxable equivalent basis, using regular income tax rates.

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON APRIL 23, 2002

TO THE SHAREHOLDERS OF CARROLLTON BANCORP:

The Annual Meeting of Shareholders of Carrollton Bancorp, a Maryland corporation (the "Company"), will be held at the Company's Corporate Headquarters at 344 North Charles Street, Baltimore, Maryland on April 23, 2002 at 10:00 a.m., prevailing local time, for the following purposes:

1. To elect four directors for a three year term ending in 2005.
2. To act upon any other matter which may properly come before the meeting or any adjournment thereof.

The close of business on March 8, 2002 has been fixed by the Board of Directors as the date for determining shareholders of record entitled to receive notice of and to vote at the Annual Meeting.

Your attention is directed to the enclosed Proxy Statement and annual report of the Company for the fiscal year ended December 31, 2001.

Please sign, date and mail the accompanying proxy in the enclosed, self-addressed, stamped envelope, whether or not you expect to attend the meeting in person. You may withdraw your proxy at the meeting should you be present and desire to vote your shares in person. Your cooperation is respectfully requested.

By Order of the Board of Directors

/s/ D. DOREEN SMITH

D. Doreen Smith
Secretary

Baltimore, Maryland
March 8, 2002

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AND VOTED. ACCORDINGLY, PLEASE DATE, SIGN AND RETURN THE ENCLOSED PROXY PROMPTLY.

(This Page Intentionally Left Blank)

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

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS

APRIL 23, 2002

SOLICITATION AND REVOCATION OF PROXIES

This Proxy Statement (the "Proxy Statement") is being furnished to the shareholders of Carrollton Bancorp (the "Company") in connection with the solicitation of proxies by the Board of Directors of the Company for use at the Annual Meeting of Shareholders, and any adjournments thereof, to be held at 10:00 AM prevailing local time, on Tuesday, April 23, 2002. This Proxy Statement is being sent to the shareholders of the Company on or about March 22, 2002.

The Board of Directors has selected Robert J. Aumiller, David P. Hessler and John Paul Rogers and each of them, to act as proxies with full power of substitution. A proxy may be revoked at any time prior to its exercise by giving written notice of revocation to the Company, by executing and delivering a substitute proxy to the Company, or by attending the Annual Meeting and voting in person. If no instructions are specified in the proxy, it is the intention of the persons named therein to vote **FOR** the election of the nominees named herein as directors of the Company.

Shareholders of the Company are requested to complete, date and sign the accompanying form of proxy and return it promptly to the Company in the enclosed envelope. If a proxy is properly executed and returned in time for voting, it will be voted as indicated thereon.

The Company does not know of any matter to be presented at the Annual Meeting except as described herein. If any other matters are properly brought before the Annual Meeting, the persons named in the enclosed proxy intend to vote the proxy according to their best judgement.

The Company will bear the costs of the solicitation of proxies, including the reimbursement of banks, brokers and other fiduciaries for expenses in forwarding proxy solicitation materials to beneficial owners. Such expenses are estimated not to exceed \$5,000. Solicitations may be made by mail, telegraph or personally by directors, officers or employees of the Company, none of whom will receive additional compensation for performing such services.

VOTING SECURITIES

On March 8, 2002, the Company had outstanding 2,700,337 shares of Common Stock, \$1.00 par value per share. Each share of Common Stock entitles the holder thereof to one vote on each matter to be voted upon at the Annual Meeting. Neither the Company's Charter nor its Bylaws provides for cumulative voting rights.

The close of business on March 8, 2002 has been fixed by the Board of Directors as the record date for determining the shareholders of the Company entitled to receive notice of and to vote at the Annual Meeting.

ELECTION OF DIRECTORS

The Company's Board of Directors is divided into three classes. Each year the directors in one class are elected to serve for a term of three years. The Shareholders will vote at this Annual Meeting for the election of four directors for the three-year term expiring at the Annual Meeting of Shareholders in 2005.

The proxies solicited hereby, unless directed to the contrary, will be voted FOR the election as directors of all four nominees listed in the following tables. In order to be elected, a majority of the shares voted must be voted FOR the election of each nominee. Each nominee has consented to serve as a director, if elected.

Your Company's Board of Directors unanimously recommends a vote FOR the election of each of the Nominees named below as directors of the Company.

In the event that any of the nominees should be unable to serve, the persons named in the proxy will vote for such substitute nominee or nominees as they, in their sole discretion, shall determine. The Board of Directors has no reason to believe that any nominee named herein will be unable to serve.

The following material contains information concerning the nominees for election and those directors whose terms continue beyond the date of the Annual Meeting.

NOMINEES FOR DIRECTOR FOR TERM EXPIRING IN 2005

Steven K. Breeden Mr. Breeden, age 43, has served as a director of the Bank, since June 1994, and of the Company since October 1995. Mr. Breeden is currently Vice President and Secretary of Security Development Corporation, a real estate development company, a position he has held since 1980. (2) Harold I. Hackerman Mr. Hackerman, age 50, has served as a director of the Bank since February 2002 and of the Company since February 2002. Since 1984, Mr. Hackerman has been Vice President of Ellin & Tucker, a certified public accounting firm, and has provided audit, accounting and consulting services since 1973. Howard S. Klein Mr. Klein, age 42, has served as a director of the Bank since March 1999 and of the Company since April 1999. Mr. Klein has been Vice President and General Counsel for Klein's Super Markets, a family-operated chain of five full serve supermarkets and related development and operating companies since 1987. (1) Leo A. O'Dea Mr. O'Dea, age 71, has served as a director of the Bank since 1983 and of the Company since its inception in 1990. Mr. O'Dea was elected Chairman of the Company in February 1994 in which he served until resigning his Chairmanship in January 2002. He was President of Hamilton & Spiegel, Inc., a sheet metal contractor, from 1979 until his retirement in 1997. (2)

DIRECTORS CONTINUING IN OFFICE

DIRECTORS WHOSE TERMS EXPIRE IN 2003

Albert R. Counselman - Mr. Counselman, age 53, has served as a director of the Bank since April 1985, and of the Company since its inception in 1990. Mr. Counselman was elected Chairman of the Board of the Company in January 2002. He has been President of Riggs, Counselman, Michaels & Downes, Inc., an insurance brokerage firm, since September 1987, and served in various executive positions with that firm from 1972 to September 1987. (1)(2)

John P. Hauswald - Mr. Hauswald, age 79, has served as a director of the Bank since 1964 and of the Company since its inception in 1990. He was, until his retirement in October 1989, President of The Hauswald Bakery. (2)

David P. Hessler - Mr. Hessler, age 45, has served as a director of the Bank since March 1999, and the Company since May 1999. He has been President and CEO of Eastern Sales & Engineering, an electrical contracting and service maintenance firm, since 1987 and was Vice President from 1986 to 1987. Mr. Hessler has been Vice President of Advanced Petroleum Equipment, a

distributorship, since its inception in 1998. (1)

William C. Rogers, Jr. - Mr. Rogers, age 75, has served as a director of the Bank since 1955 and of the Company since its inception in 1990. He has been a partner in the law firm of Rogers, Moore and Rogers, counsel to the Bank, since 1970. He has been Chairman of the Board of The Security Title Guarantee Corporation of Baltimore since 1970 and a director since 1952, and was President from 1970 until March 1989. Mr. Rogers is President of Maryland Mortgage Company where he has been a director since 1953. He is also President of Moreland Memorial Park Cemetery, Inc. where he has been a director since 1959. He is the brother of John Paul Rogers, a director of the Bank and the Company.

DIRECTORS WHOSE TERMS EXPIRE IN 2004

Robert J. Aumiller - Mr. Aumiller, age 53, currently is serving as a director of the Bank and Company beginning with his appointment in 2001. He has been the Executive Vice President of MacKenzie Commercial Real Estate Services, involved in brokerage and real estate development of various commercial real estate projects, since 1983.

Ben F. Mason - Mr. Mason, age 64, currently is serving as a director of the Bank and Company beginning with his appointment in 2001. He has been the Executive Director of the Baltimore City Chamber of Commerce, a member business association that promotes business development within Baltimore City, since 1993.

Charles E. Moore, Jr. - Mr. Moore, age 52, currently is serving as a director of the Bank and Company beginning with his appointment in 2001. He has been the Co-Founder, Director, President and CFO of TelAtlantic, a consolidation of rural telephone companies across the United States, since 1999. Mr. Moore has been the Co-Founder, Director, and CFO of GoEbusiness.com, which specializes in the development of customized E-Commerce solutions, since 1998. (1)

John Paul Rogers - Mr. Rogers, age 66, has served as director of the Bank since 1970 and of the Company since its inception in 1990. Mr. Rogers has been Chairman of the Bank since February 1994. He was a partner of the law firm of Rogers, Moore and Rogers, counsel of the Bank, from 1970 until 1992. Mr. Rogers was senior title officer of The Security Title Guarantee Corporation of Baltimore from May 1991 until December 1992, having served as President from March 1989 until May 1991, and as Executive Vice President from March 1970 until March 1989. He is the brother of William C. Rogers, Jr. a director of the Bank and the Company.

The Board of Directors of the Company met 6 times and the Board of Directors of the Bank met 12 times during the year ended December 31, 2001. The Board of Directors of the Bank meets regularly 12 times each year. No director attended fewer than 75% of the total number of meetings of both Boards and committees to which they were assigned during the year ended December 31, 2001.

As of the date of this Proxy Statement, the Board of Directors does have a standing nominating committee.

The Audit Committee held 8 meetings during 2001. Its current members are Messrs. Counselman, Hessler, Klein and Moore. Only nonemployee directors are eligible to serve on the Audit Committee. The duties of the Audit Committee include reviewing the quarterly and annual financial statements and regulatory filings of the Company and Bank and the scope of the independent annual audit and internal audits. It also reviews the independent accountant's letter to management concerning the effectiveness of the Company's internal financial and accounting controls and management's response to that letter. In addition, the Committee reviews and recommends to the Board the firm to be engaged as the Company's independent accountants. The Committee may also examine and consider other matters relating to the financial affairs of the Company as it determines appropriate.

The Compensation Committee met 3 times during 2001. Its current members are Messrs. Breeden, Counselman, Hauswald, and O'Dea. The purpose of the Compensation Committee is to review and approve major compensation and benefit policies of the Company and the Bank. In addition, the committee recommends to the Board the compensation to be paid to all officers, Senior Vice President and above, of the Bank.

Directors who are not employees of the Bank receive a monthly fee of \$900 for Board meetings, and between \$75 and \$150 per committee meeting attended. The Chairman of the Board of the Bank receives a monthly fee of \$1,100. Directors do not receive additional fees for their service as directors of the Company.

OTHER EXECUTIVE OFFICERS AND DIRECTORS OF THE BANK

Certain information regarding directors and significant employees of the Bank other than those previously mentioned is set forth below.

Robert A. Altieri - Mr. Altieri, age 40, has been President and Chief Executive Officer of both the Bank and Company since his appointment in February 2001. Mr. Altieri previously was the Senior Vice President—Lending of the Bank since June 1994, and Vice President—Commercial Lending since September 1991.

Edward R. Bootey - Mr. Bootey, age 55, has been Senior Vice President - Automation & Technology since October, 1995, and was Senior Vice President—Operations of the Bank from June 1994 to October 1995. Mr. Bootey previously served as Vice President—Operations from January 1991. He served as Assistant Vice President—Operations from December 1987 until January 1991.

Donna D. Dorman - Ms. Dorman, age 35, has been Senior Vice President—Branch Administration since September 2001. Prior to joining Carrollton Bank, Ms. Dorman was Sales Manager for First Union Bank from 1997-2001. She served as Marketing Manager for First Union, Baltimore from 1995 - 1997.

John A. Giovanazi - Mr. Giovanazi, age 44, has been Senior Vice President and Chief Lending Officer since his appointment February 2001. Mr. Giovanazi previously was Vice President of

-
- (1) Member of the Audit Committee
 - (2) Member of the Compensation Committee

Commercial Lending since August 1996. Prior to joining Carrollton Bank, he was a Vice President, Commercial lending, with Citizens Bank of Maryland, from 1992 to 1996.

Gary M. Jewell - Mr. Jewell, age 55, has been Senior Vice President and Retail Delivery Group Manager since July 1998. He was previously Senior Vice President Electronic Banking from March 1996 to July 1998. Prior to joining Carrollton Bank, Mr. Jewell was Director of Product Management and Point of Sale Services for the MOST EFT network in Reston, Virginia from March 1995 to March 1996 and prior to that Director/Manager of Merchant Services for the Farmers and Mechanics National Bank from 1993 to March 1995.

Randall M. Robey - Mr. Robey, age 44, has been Executive Vice President and Chief Financial Officer of both the Bank and Company, since November 2000. Previously he had been the Senior Vice President and Chief Financial Officer and Treasurer since October 1999. Prior to joining Carrollton Bank, Mr. Robey was Vice President of Financial Services of Mercantile Bank & Trust in Baltimore, Maryland from June of 1998 to October 1999, and prior to that Senior Vice President

and Chief Financial Officer of Annapolis Bank & Trust from March of 1989 to June 1998.

STOCK PERFORMANCE TABLE

Carrollton Bancorp is required by the SEC to provide a five-year comparison of the cumulative total stockholder return on our Common Stock compared with that of a broad equity market index, and either a published industry index or a Carrollton Bancorp constructed peer group index.

The following chart compares the cumulative stockholder return on Carrollton Bancorp Common Stock from December 31, 1996, to December 31, 2001, with the cumulative total of the NASDAQ Composite (U.S.) and the NASDAQ Bank Indices. The comparison assumes \$100 was invested on December 31, 1996 in Carrollton Bancorp Common Stock and in each of the foregoing indices. It also assumes reinvestment of any dividends.

Carrollton Bancorp does not make, nor does it endorse, any predictions as to future stock performance.

CARROLLTON BANCORP STOCK PERFORMANCE

<i>Index</i>	<i>Period Ending</i>					
	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01
Carrollton Bancorp.....	100.00	168.14	162.12	152.56	122.65	140.41
NASDAQ — Total						

US*.....	100.00	122.48	172.68	320.89	193.01	153.15
NASDAQ Bank Index*.....	100.00	167.41	166.33	159.89	182.38	197.44

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 8, 2002, certain information concerning shares of the Common Stock of the Company beneficially owned by (i) the

chief executive officer of the Company; (ii) all directors and nominees for directors of the Company and the Bank; (iii) all directors and officers of the Company and the Bank as a group; and (iv) other significant shareholders.

<i>Beneficial Owner(1)(20)</i>	<i>Amount and Nature of Beneficial Ownership</i>	<i>Percent of Class</i>
Directors:		
Robert J. Aumiller	500(3)	*
Steven K. Breeden	8,620(4)	*
Albert R. Counselman	36,113(5)	1.34%
Thelma T. Daley	1,910(6)	*
Harold I. Hackerman	500(7)	*
John P. Hauswald	14,202(8)	*
David P. Hessler	1,400(9)	*
Howard S. Klein	3,800(10)	*
Ben F. Mason	64,504(11)	2.39%
Charles E. Moore, Jr.	2,946(12)	*
Leo A. O'Dea	13,616(13)	*
John Paul Rogers	195,812(14)	7.26%
William C. Rogers, Jr.	259,972(15)(16)(17)	9.62%
All Directors and Executive Officers of the Company as a Group (14 persons)	616,727(2)(19)	22.84%
Other Significant Shareholder:		
Patricia A. Rogers	224,782(18)	8.32%

* Less than 1%

- (1) Unless otherwise indicated, the named person has sole voting and investment power with respect to all shares.
- (2) Includes 166 shares Mr. Altieri holds as trustee for minor children under the Maryland Uniform Gifts to Minors Act, and 11,000 fully vested options to purchase shares at an exercise price of between \$11.49 and \$18.68 per share.
- (3) Includes 400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$11.063 per share.
- (4) Includes 3,098 shares owned jointly by Mr. Breeden and his wife and 2,400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$19.00 per share.
- (5) Includes 2,400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$19.00 per share, but excludes 3,000 shares owned by Mr. Counselman's wife.
- (6) Includes 1,800 fully vested options to purchase shares at an exercise price of between \$10.20 and \$18.68 per share.
- (7) Includes 400 shares owned jointly by Mr. Hackerman and his wife.
- (8) Includes 11,802 shares owned by Mr. Hauswald and 2,400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$19.00 per share.
- (9) Includes 1,000 fully vested options to purchase shares at an exercise price of between \$10.20 and \$16.19 per share.
- (10) Includes 400 shares owned jointly by Mr. Klein and his wife. Also includes 1,600 shares owned by Colgate Investments, LLP, of which Mr. Klein is a shareholder and 600 shares Mr. Klein holds as trustee for minor children under the Maryland Uniform Gift to Minors Act. Also includes 1,200 fully vested options to purchase shares at an exercise price of between \$10.20 and \$16.13 per share.
- (11) Includes 400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$11.063 per share. Also includes 63,904 shares owned by The Security Title Guarantee Corporation of Baltimore of which Mr. Mason is a Director.
- (12) Includes 400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$11.063 per share, but excludes 16,296 shares owned by Mr. Moore's wife.

- (13) Includes 2,400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$19.00 per share but excludes 15,754 shares owned by Mr. O'Dea's wife.
- (14) Includes 2,400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$19.00 per share. Also includes 63,904 shares owned by The Security Title Guarantee Corporation of Baltimore and 9,506 shares owned by Maryland Mortgage Company of which Mr. Rogers is a principal shareholder.
- (15) Includes 63,904 shares owned by The Security Title Guarantee Corporation of Baltimore and of which William C. Rogers, Jr. is Chairman, as well as a Director. Includes 2,400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$19.00 per share.
- (16) Includes 9,720 shares owned by the Moreland Memorial Park Cemetery Bronze Perpetual Care Trust Agreement, Inc., owned by the Moreland Memorial Park Cemetery Inc. 44,364 shares owned by the Moreland Memorial Park Cemetery, Inc. Perpetual Care Trust Agreement for which William C. Rogers, Jr. serves as trustee, and 9,506 shares

owned by Maryland Mortgage Company of which William C. Rogers, Jr. is President, as well as a Director.

- (17) Includes 128,598 shares owned jointly by Mr. Rogers and his wife. Excludes 11,548 shares owned by Mr. Roger's wife.
- (18) Includes 151,372 shares owned by Mrs. Rogers. Also, includes 63,904 shares owned by The Security Title Guarantee Corporation of Baltimore and 9,506 shares owned by Maryland Mortgage Company of which Mrs. Rogers is a principal shareholder.
- (19) Includes 1,666 fully vested options to purchase shares at an exercise price of between \$11.49 and \$16.25 by Mr. Robey.
- (20) All directors, executive officers and other significant shareholders may be contacted at the Company's corporate offices by addressing correspondence to the appropriate person, care of Carrollton Bancorp, 344 North Charles Street, Suite 300, Baltimore, Maryland 21201.

PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth information with respect to the ownership of shares of Common Stock of the Company by the only persons believed by management to be the beneficial owners of more than five percent of the Company's outstanding Common Stock. The information is based on the most recent Schedule 13G filed by such persons with the Securities and Exchange Commission.

<i>Name and Address of Beneficial Owner</i>	<i>Amount and Nature of Beneficial Ownership</i>	<i>Percentage of Common Stock Outstanding</i>
John Paul Rogers 46 C Queen Anne Way Chester, MD 21619	193,412(a)	7.16%
William C. Rogers, Jr. 6 South Calvert Street Baltimore, MD 21201	257,572(b)	9.54%
Patricia A. Rogers P.O. Box 246 Gibson Island, MD 21056	224,782(c)	8.32%

- (a) John Paul Rogers has sole voting and dispositive power over 120,002 shares. Also includes 63,904 shares owned by The Security Title Guarantee Corporation of Baltimore, and 9,504 shares owned by Maryland Mortgage Company of which Mr. Rogers is a principal shareholder.
- (b) A schedule 13G dated February 12, 2002 states that William C. Rogers, Jr. has sole voting and dispositive power over 1,480 shares, and shared voting and dispositive power over 256,092 shares.
- (c) Patricia A. Rogers has sole voting and dispositive power over 151,372 shares. Also includes 63,904 shares owned by The Security Title Guarantee Corporation of Baltimore, and 9,504 shares owned by Maryland Mortgage Company of which Mrs. Rogers is a principal shareholder.

EXECUTIVE COMPENSATION

The following table sets forth the compensation paid or allocated for services rendered to the Company in all capacities during the years ended December 31, 1999, 2000, and 2001 to the chief executive officer of the Company, as well as other members of Executive Management whose compensation exceeded \$100,000.

SUMMARY COMPENSATION TABLE

<i>Name and Principal Position</i>	<i>Year</i>	<i>Salary</i>	<i>Long-Term Incentive Plan Stock Options Grants (Shares)</i>	<i>Bonus</i>	<i>Other Compensation</i>
Robert A. Altieri	2001	\$172,943	10,000	\$0	
President and Chief Executive Officer	2000	\$102,226	3,000	\$1,800	
	1999	\$97,908	6,000	\$5,000	
Randall M. Robey	2001	\$119,682	7,000	\$0	
Executive Vice President and	2000	\$94,807	3,000	\$1,800	
	1999	\$12,807	1,000	\$1,000	

Chief Financial
Officer

The Company had no employment agreements, termination of employment, or change-in-control agreements or understandings with any of its directors, executive officers or any other party whatsoever.

LONG-TERM INCENTIVE PLAN

The 1998 Long-Term Incentive Plan, which was approved at the 1998 Annual Meeting of Shareholders, authorizes the granting of awards in the form of options, stock appreciation rights, restricted stock, performance awards, phantom shares, bonus shares or cash awards. Any executive or other employee of the Company, its subsidiaries, affiliated entities and non-employee Directors of the Company shall be eligible to receive awards under the Plan. Non-employee Directors of subsidiaries or affiliated entities of the Company will not be eligible to participate in the Plan.

The Plan provides for 200,000 shares of the Company's Common Stock to be issued as awards under the Plan, either directly or upon exercise of an option. The Plan provides for appropriate adjustments in the number of shares subject to the Plan in the event of a stock dividend, stock split, reverse stock split or other similar changes in the Company's common stock or in the event of a merger, consolidation or certain other types of recapitalizations affecting the Company.

OPTION GRANTS IN 2001

The following table contains information concerning the grant of stock options under the Long-Term Incentive Plan to the Chief Executive Officer.

<i>Name</i>	<i>Options Granted (Number of Shares)</i>	<i>% of Total Options Granted to Employees in year</i>	<i>Exercise or Base Price</i>	<i>Expiration Date</i>	<i>Potential Realizable Value at Assumed Annual Rates of Stock Appreciation for Option Term</i>	
					<i>5%</i>	<i>10%</i>
Robert A. Altieri	10,000	27%	\$11.49	2011	\$72,260	\$183,121

A total of 46,000 incentive stock options were granted in 2001 under the 1998 Long-Term Incentive Plan to directors and employees. Of the total, 9,000 incentive stock options were granted to directors at an exercise price ranging from \$10.20 to \$11.063. The options granted to directors vest over a three year period and expire if not exercised in 2011. There were no grants in 2001 for restricted stock, stock appreciation rights, performance grants, phantom shares, bonus shares or cash awards.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the past year the Company has had banking transactions in the ordinary course of its business with: (i) its directors and nominees for directors; (ii) its executive officers; (iii) its 5% or greater shareholders; (iv) members of the immediate family of its directors, nominees for directors or executive officers and 5% shareholders; and (v) the associates of such persons on substantially the same terms, including interest rates, collateral, and repayment terms on loans, as those prevailing at the same time for comparable transactions with others. The extensions of credit by the Company to these persons have not and do not currently involve more than the normal risk of collectibility or present other unfavorable features. At December 31, 2001, the balance of loans outstanding to directors, executive officers, owners of 5% or more of the outstanding Common Stock, and their associates, including loans guaranteed by such persons, aggregated \$5,264,386 which represented approximately 16.1% of the Company's equity capital accounts.

William C. Rogers, Jr., a director of both the Company and the Bank, is a partner of the law firm of Rogers, Moore and Rogers which performs legal services for the Company, the Bank, and Bank Subsidiaries. Management believes that the terms of these transactions which totaled \$173,737 in 2001 were at least as favorable to the Company as could have been obtained elsewhere.

Albert R. Counselman, a director of both the Company and the Bank, is President and Chief Executive Officer of Riggs, Counselman, Michaels & Downes, Inc., an insurance brokerage firm through which the Company, the Bank, and Bank subsidiaries place various insurance policies. The Company and the Bank paid total premiums for insurance policies placed by Riggs, Counselman, Michaels & Downes, Inc in 2001 of \$249,889. Management believes that the terms of these transactions were at least as favorable to the Company as could have been obtained elsewhere.

Robert J. Aumiller, a director of both the Company and the Bank is Executive Vice President of MacKenzie Real Estate Services, a brokerage and real estate development firm, through which the Company and the Bank paid for commercial real estate services of \$5,021 for appraisal and property management services provided by MacKenzie Commercial Real Estate Services.

VOTING PROCEDURES

Each proposal submitted to the Company shareholders for a vote is deemed approved if a majority of the shares of Common Stock of the Company present in person or by proxy at a meeting at which a quorum is present votes in favor of the proposal. The presence in person or by proxy of shareholders entitled to cast a majority of all the votes entitled to be cast at the meeting constitutes a quorum. A shareholder is entitled to one vote for each share owned.

Shareholder votes are tabulated by the Company's Registrar and Transfer Agent. Proxies received by the Company, if such proxy is properly executed and delivered, will be voted in accordance with the voting specifications made on such Proxy. Proxies received by the Company on which no voting specification has been made by the shareholder will be voted "for" all items discussed in the Proxy Statement, in the manner stated on the proxy card. Shareholders who execute and deliver proxies retain the right to revoke them by notice in writing delivered to the Company Secretary at any time before such proxies are voted.

Under applicable Maryland corporate law and the Charter and By-Laws of the Company, proxies received by the Company specifying an abstention as to any proposal will cause the shares so represented to be counted toward a quorum, but are not counted as favorable votes and, therefore, have the same effect as a vote against the proposal. To the extent holders or brokers having the right to vote shares do not attend the meeting or return a proxy, such shares will not count toward a quorum and, if a quorum is otherwise achieved, will have no effect

on the vote of the proposals considered at the meeting.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no matters submitted to a vote of the Company's security holders since its 2001 Annual Shareholders' Meeting held on April 24, 2001.

SHAREHOLDER PROPOSALS

Proposals of shareholders to be presented at the 2003 Annual Meeting of the Company must be received prior to November 15, 2002 in order to be included in the proxy statement for such meeting. In order to curtail controversy as to compliance with this requirement, shareholders are urged to submit proposals to the Secretary of the Company by Certified Mail—Return Receipt Requested.

INDEPENDENT PUBLIC ACCOUNTANT

The Company's Board of Directors has selected the firm of Rowles & Company, LLP, certified public accountants, as independent auditors for the Company for the fiscal year 2002. Rowles & Company has served as independent auditors for the Company since 1955. No qualified opinions have been issued during such engagement. A representative of Rowles & Company will be present at the 2001 Annual Shareholders' Meeting, but has not been invited to make a statement or be available to respond to questions.

AUDIT COMMITTEE REPORT

The Audit Committee has adopted a written charter which follows. The Audit Committee has (1) reviewed and discussed the Company's audited financial statements with Company management and representatives of Rowles & Company, LLP, the Company's independent auditors; (2) discussed with Rowles & Company, LLP all matters required to be discussed by SAS No. 61, as modified or supplemented; and (3) has received the written disclosures and the letter from Rowles & Company, LLP required by Independence Standard Board Standard No. 1, as modified or supplemented. Based on its review and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements for the year ended December 31, 2001 be included in the Company's Annual Report on Form 10-K for the last fiscal year.

Audit Committee:

By: Albert R. Counselman
David P. Hessler
Howard S. Klein
Charles E. Moore, Jr.

AUDIT COMMITTEE CHARTER

The following policy is designed to define the scope of the Audit Committee's responsibilities, and how the Committee carries them out, including structure, process, and membership requirements.

The Audit Committee is appointed by the Board to assist the Board in monitoring (1) the integrity of the financial statements of the Company, (2) the compliance by the Company with legal and regulatory requirements and (3) the independence and performance of the Company's internal and external auditors.

The Audit Committee shall have the authority to retain special legal, accounting or other consultants to advise the Committee. The Audit Committee may request any officer or employee of the Company or the Company's outside independent auditor to attend a meeting of the committee or to meet with any members of, or consultants to, the Committee.

COMPOSITION

The members of the Audit Committee shall meet the independence and experience requirements of the New York Stock Exchange. The members of the Audit Committee shall be appointed by the Board of Directors of Carrollton Bancorp.

DUTIES OF THE COMMITTEE

The Audit Committee shall:

1. Review and reassess the adequacy of this Charter annually and submit it to the Board for approval.
2. Review the annual audited financial statements with management, including major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls that could significantly affect the Company's financial statements.
3. Review an analysis prepared by management and the independent auditor of significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements.
4. Review with management and the independent auditor the Company's quarterly financial statements prior to the release of quarterly earnings. Report to the Board on their condition and accuracy, and join in their execution on the Board's behalf, to the extent required by regulations and law.
5. Review and sign the Call Report prior to its filing.
6. Meet periodically with management to review the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
7. Review major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management.

8. Recommend to the Board the appointment of the independent auditor, which firm is ultimately accountable to the Audit Committee and the Board.
9. Approve the fees to be paid to the independent auditor.
10. Receive periodic reports from the independent auditor regarding the auditor's independence. Discuss such reports with the auditor, and if so determined by the Audit Committee, recommend that the Board take appropriate action to ensure the independence of the auditor.
11. Evaluate the performance of the independent auditor and, if so determined by the Audit Committee, recommend that the Board replace the independent auditor.
12. Review the appointment and replacement of the senior internal auditing executive.
13. Review the significant reports to management prepared by the internal auditing department and management's responses to those reports.
14. Meet with the independent auditor prior to the audit to review the planning and staffing of the audit.
15. Discuss with the independent auditor the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees) relating to the conduct of the audit.
16. Review with the independent auditor any problems or difficulties the auditor may have encountered and any management letter provided by the auditor and the Company's response to that letter. Such review shall include:
 - (a) Any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information.
 - (b) Any changes required in the planned scope of the internal audit.
 - (c) The internal audit department responsibilities, budget and staffing.
17. Prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.
18. Review with the Company's General counsel legal matters that may have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or governmental agencies.
19. Meet at least annually with the Chief Financial Officer, the senior internal auditing executive and the independent auditor in separate executive sessions.
20. Review significant reports to management, prepared by the FDIC, and management's response to any unreconciled items.
21. Review the Company's annual internal audit schedule. Assure that all significant areas of the Company are scheduled for audit.
22. Report to the Board any outstanding actions or audited items that management fails to reconcile or correct on a timely basis.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations and the Company's Code of Conduct.

RECORDS:

The Audit Committee shall keep minutes and other relevant records of all of its meetings.

The Audit Committee shall make regular reports to the Board of Directors.

AUDIT FEES

The estimated fees billed or to be billed by Rowles & Company, LLP for professional services rendered for the audit of our annual financial statement for the year ended December 31, 2001 and the review of the financial statements included in the Company's

Forms 10-Q and 10-K for that year are \$69,308.

AUDIT RELATED FEES

The aggregate fees billed for audit related services rendered by Rowles & Company, LLP for the year ended December 31, 2001 were \$17,493.

FINANCIAL INFORMATION SYSTEMS DESIGN AND IMPLEMENTATION FEES

During the year ended December 31, 2001, Rowles & Company, LLP did not render to us any of the professional services with regard to financial information systems design and implementation described in paragraph (c)(4)(ii) of Rule 2-02 of Regulation S-X.

ALL OTHER FEES

The aggregate fees billed for services rendered by Rowles & Company, LLP for the year ended December 31, 2001, other than the services described above under "Audit Fees" and Audit Related Fees", were \$15,234.

The Audit Committee has determined that the provision of the services covered in "All Other Fees" is compatible with maintaining Rowles & Company, LLP's independence.

Annual Report

The Annual Report of the Company for the year 2001 is included herein. Copies of the report will also be available at the Annual Meeting on April 23, 2002.

A COPY OF THE COMPANY'S ANNUAL REPORT TO THE SECURITIES AND EXCHANGE COMMISSION ON FORM 10-K FOR THE PERIOD ENDED DECEMBER 31, 2001, INCLUDING FINANCIAL STATEMENTS AND THE SCHEDULES THERETO WILL BE FURNISHED BY MANAGEMENT TO ANY BENEFICIAL OWNER OF ITS SECURITIES WITHOUT CHARGE UPON RECEIPT OF A WRITTEN

REQUEST FROM SUCH PERSON. REQUESTS IN WRITING SHOULD BE DIRECTED TO RANDALL M. ROBEY, TREASURER, CARROLLTON BANCORP, 344 NORTH CHARLES STREET, SUITE 300, BALTIMORE, MARYLAND 21201-4301. EACH REQUEST MUST SET FORTH A GOOD FAITH REPRESENTATION THAT, AS OF MARCH 8, 2002, THE RECORD DATE FOR THE ANNUAL MEETING, THE PERSON MAKING THE REQUEST WAS A BENEFICIAL OWNER OF SECURITIES ENTITLED TO VOTE AT SUCH MEETING.

OTHER MATTERS

The management of the Company knows of no matters to be presented for action at the meeting other than those mentioned above; however, if any other matters properly come before the meeting, it is intended that the persons named in the accompanying proxy will vote on such other matters in accordance with their judgement of the best interest of the Company.

By Order of the Board of Directors

/s/ D. DOREEN SMITH

D. Doreen Smith
Secretary

Baltimore, Maryland
March 8, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 FORM 10-K

Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934 (Fee required)

For the fiscal year ended December 31, 2001

Commission file number: 0-23090

Carrollton Bancorp

(Name of Issuer in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation or Organization)

52-1660951

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

344 North Charles Street, Suite 300
 Baltimore, Maryland

(Address of Principal Executive Offices)

21201-4301

(Zip Code)

(410) 536-4600

(Issuer's Telephone Number)

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

Title of Each Class

None

Name of Each Exchange

on Which Registered

None

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

Common Stock

(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 past 90 days.

Yes No

Indicate by checkmark 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.

Issuer's revenues for its most recent fiscal year. \$30,989,068.

As of February 26, 2002, the aggregate market value of the voting stock held by non-directors and executive officers: \$27,035,472.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. 2,700,337 shares as of March 8 2002.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Part I

ITEM 1: DESCRIPTION OF BUSINESS

General. - Carrollton Bancorp (the "Company") is a bank holding company registered as such under the Bank Holding Company Act of 1956, as amended, and was organized on January 11, 1990. Carrollton Bank (the "Bank") is a commercial bank and the principal subsidiary of the Company. The Bank was chartered by an act of the General Assembly of Maryland (Chapter 727) approved April 10, 1900. The Bank is engaged in a general commercial and retail banking business.

Service Area. - The service area for the Bank is defined principally by geographic area. The Bank's eleven bank branches are located in Baltimore City, Baltimore County and Anne Arundel County, Maryland. The Bank attracts deposits and generates loan activity throughout this area primarily through its branch network. In addition, the Bank has made loans in Harford County, Howard County and Prince George's County, Maryland, and in southern Pennsylvania. The Bank also has deposit customers who live in Harford County and Howard County, Maryland. The Bank also operates an ATM network of 130 machines in Maryland, Virginia, West Virginia, and Delaware. The Bank also sponsors national retailers in various electronic networks operating as regional switches for electronic transactions throughout the country.

Description of Services. - The Bank provides a broad range of consumer and commercial banking products and services to individuals, businesses, professionals and governments. The services and products have been designed in such a manner as to appeal to consumers and business principals.

The following is a partial listing of the types of services and products which the Bank offers:

- Commercial loans for businesses, including those for working capital purposes, equipment purchases and accounts receivable and inventory financing.
- Commercial and residential real estate loans for acquisition, refinancing and construction.
- Selected consumer loans including automobile loans, home equity loans and lines of credit.
- Loans guaranteed by the United States Small Business Administration.
- Money market deposits, demand deposits, NOW accounts and certificates of deposit.
- Letters of credit and remittance services.
- Credit and debit card services.
- Merchant credit card deposit servicing.
- Brokerage services for stocks, bonds, mutual funds and annuities.
- A 24-hour ATM network.
- After-hours depository services.
- Safe deposit boxes.
- Point of Sale (POS) services
- Other services, such as direct deposit services, travelers checks and IRAs.

Customer service hours for the Bank are fully competitive with other institutions in the market area. The Bank also acts as a reseller of services purchased from third party vendors for customers requiring services not offered directly by the Bank.

Lending Activities. - The Bank makes various types of loans to borrowers based on, among other things, an evaluation of the borrowers' net asset value, cash flow, security and indicated ability to repay. Loans to consumers include residential mortgages, home equity loans, home improvement loans, overdraft loans, and installment loans for automobiles, boats and recreational vehicles. The Bank also makes loans secured by deposit accounts and common stocks. The Bank's commercial loan product line includes first mortgage loans, time and demand loans, lines and letters of credit, and asset based financing. The Notes to the Consolidated Financial Statements contained in Part II, Item 8 show the classification by type of loan for the whole portfolio.

First and second residential mortgage loans, made principally through a subsidiary of the Bank, Carrollton Mortgage Services Inc., ("CMSI") enabled customers to purchase or refinance residential properties. These loans are secured by liens on the residential property. All first mortgage loans with a loan to value greater than 80% have private mortgage insurance coverage equal to or greater than the amount required under the Federal National Mortgage Association guidelines. Residential loans are considered low risk based on the type of collateral (residential property) and the underwriting standards used. The Bank experienced net losses of \$50,460 and net recoveries of \$20,574 on residential mortgage loans in 2001. The Bank experienced \$96,961 in net losses in 2000 and \$30,317 in net recoveries in 2000 and no losses or recoveries on residential mortgage loans during 1999. There were \$92,636 of residential mortgage loans delinquent more than 90 days at December 31, 2001. There are no discernible delinquency or loss trends relating to residential mortgage loans known to management.

Home equity lines of credit are typically second mortgage loans (sometimes first mortgages) secured by the borrower's primary residence structured as a revolving borrowing line with a maximum loan amount. Customers write checks to access the line. Generally, the Bank has a second lien on the property behind the first mortgage lien holder. The

Bank has a number of different equity loan products that it offers. Borrowers can choose between fixed rate loans or loans tied to the prime rate with margins ranging from 0% to 1.5%. The Bank will finance up to 90% of the value of the home in combination with the first mortgage loan balance, depending on the rate and program. As with first mortgage residential loans, borrowers are required to meet certain income and debt ratios. The Bank maintains in its portfolio loans financed under a program which would finance up to 125% of the value of the home, subject to stricter income and debt ratios, with a maximum loan amount of \$25,000. Home equity loans carry a higher level of risk than first mortgage residential loans because of the second lien position on the property, and because a higher loan to value ratio is used in the underwriting of the loan. However, the overall risk of loss on home equity loans is also considered low due to the underlying values of the collateral. The Bank experienced net losses on home equity loans during 2001 of \$67,122 and recoveries of \$2,228. There were net losses of \$104,226 and net recoveries of \$0 in 2000. There were net losses of \$44,000 and \$12,000 net recoveries on home equity loans during 1999. There were approximately \$272,383 of home equity loans delinquent more than 90 days at December 31, 2001. There are no discernible delinquency or loss trends relating to home equity loans known to management.

Commercial and investment mortgage loans are first mortgage loans made to individuals or to businesses to finance acquisitions of plant or earning assets, such as rental property. These loans are secured by a first mortgage lien on the commercial property, and may be further secured by other property or other assets depending on the value of the mortgaged property. In most instances, these loans are guaranteed personally by the principals. The Bank typically looks for cash flow from the business at least equal to 100% coverage of the business debt service, and to income-producing property to be self-supporting, generally, with a minimum debt service coverage ratio of 120% to 125%. Commercial mortgage loans carry more risk than residential real estate loans. Commercial mortgage loans tend to be larger in size, and the properties tend to exhibit more fluctuation in value. The repayment of the loan is primarily dependent on the success of the business itself, or the tenants in the case of income producing property. Economic cycles can affect the success of a business. The Bank did not experience any losses on commercial mortgage loans during 2001, 2000, or 1999. There were \$598,644 of commercial mortgage loans past due more than 90 days at December 31, 2001. There are no known discernible delinquency or loss trends relating to commercial mortgage loans.

Construction and land development loans are loans to finance the acquisition and development of parcels of land and to construct residential housing or commercial property. The Bank typically will finance 70% to 75% of the discounted future value of these projects, or 80% of value or 90% of cost, whichever is less, on a single-family detached home. The loan is collateralized by the project or real estate itself, and other assets or guarantees of the principals in most cases. Repayment to the Bank is anticipated from the proceeds of sale of the final units, or permanent mortgage financing on a residential construction loan for a single borrower. These types of loans carry a higher degree of risk than a commercial mortgage loan. Interest rates, buyer preferences, and desired locations are all subject to change during the period from the time of the loan commitment to final delivery of the final unit, all of which can change the economics of the project. In addition, real estate developers to whom these loans are typically made are subject to the business risk of operating a business in a competitive environment. The Bank did not experience any losses on construction and land development loans during 2001, 2000, or 1999. There were no construction and land development loans past due more than 90 days at December 31, 2001. There are no discernible delinquency or loss trends relating to construction and land development loans known to management.

Time and demand loans and lines of credit are loans to businesses for relatively short periods of time, usually not more than one year. These loans are made for any valid business purpose. These loans may be secured by assets of the borrower or guarantor, but may be unsecured based on the personal guarantee of the principal. If secured, loans may be made for up to 100% of the value of the collateral. Time and demand loans and lines of credit are more risky than secured commercial real estate lending transactions. The businesses to which these loans are made are subject to normal business risk, and cash flows of the business may be subject to economic cycles. In addition, the value of the collateral may fluctuate, or the collateral may be used for other purposes if not subject to Uniform Commercial Code filings. If guaranteed by the principal, the net worth and assets of the principal may be dissipated by demands of the business, or due to other factors. The Bank had net recoveries of \$12,750 on time and demand loans in 2001 and net losses of \$30,000, and \$71,000 in 2000, and 1999, respectively. There were \$66,000 of time and demand and line of credit loans delinquent more than 90 days at December 31, 2001. There are no discernible delinquency or loss trends relating to time and demand loans or lines of credit known to management.

Home improvement loans are loans made to borrowers to complete improvements to their homes including such projects as room additions, swimming pool installations or new roofs. Home improvement loans include those made directly to customers and those made indirectly or originated through an approved home improvement dealer. The Bank makes unsecured home improvement

loans to a maximum amount of \$12,500. Any loan above that limit is secured by a deed of trust. Borrowers are required to own their home, and to meet certain income and debt ratio requirements. The Bank also reviews the credit history of all applicants. Because they are unsecured or secured by a deed of trust, these loans are more risky than first mortgage residential lending. This risk is mitigated somewhat based on the fact that the loans are used to improve the borrower's home, typically a borrower's most significant asset. In addition, the income-and-debt-ratio requirement helps determine the borrower's current ability to repay the loan. The Bank had net charge-offs of home improvement loans of approximately \$30,251, \$22,000, and \$0 in 2001, 2000, and 1999. There were net recoveries of \$11,388, \$39,000 and \$5,000 in 2001, 2000 and 1999. There were no home improvement loans delinquent more than 90 days at December 31, 2001. There are no discernible loss or delinquency trends relating to home improvement loans known to management.

The remainder of the consumer loan portfolio is composed of installment loans for automobiles, boats and recreational vehicles, overdraft protection lines, and loans secured by deposit accounts or stocks. The largest portion of this group is installment loans for automobiles and other vehicles. The Bank will finance 85% of the cost of a new car purchase, or the maximum loan amount as determined by the National Automobile Dealers Association (NADA) publication for used cars. The Bank will finance 85% of the cost of a new boat or RV, or the maximum loan amount determined by the NADA Boat/RV Guide for used Boats and RVs. These loans are secured by the vehicle purchased. Borrowers must meet certain income and debt ratio requirements, and a credit review is performed on each applicant. These types of loans are subject to the risk that the value of the vehicle will decline faster than the amount due on the loan. However, the income-to-debt ratio requirement helps determine the borrower's current ability to repay. The Bank had net losses on automobile loans in 2001, 2000, and 1999 of \$21,933, \$208, and \$0, respectively, and recoveries of \$208 in 2001. There were no automobile or other vehicle loans past due more than 90 days at December 31, 2001. There are no discernible delinquency or loss trends relating to automobile or other vehicle loans known to management.

Overdraft lines and other personal loans are unsecured lending arrangements. These loans or lines of credit are made to allow customers to easily make purchases of consumer goods. If the lines are handled as agreed, they will typically be automatically renewed each year. Because they are unsecured, these loans carry a higher level of risk than secured lending transactions. The Bank attempts to mitigate significant risk by establishing fairly low credit limits. Net charge-offs in 2001, 2000, and 1999 were approximately \$114,000, \$122,000, and \$60,000, respectively. There were \$55,548 of overdraft loans and other personal loans past due more than 90 days at December 31, 2001. There are no discernible delinquency or loss trends relating to overdraft lines and other personal loans known to management, however, the increased losses for the three year period relate primarily to a higher level of personal bankruptcy filings.

Loans secured by savings accounts in the Bank and stock and bond certificates are secured lending arrangements. The Bank will advance funds for up to 100% of balances in savings or certificates of deposit accounts in the Bank. The Bank will advance funds up to 70% of the market value of actively traded stock certificates and bonds or 60% of the market value of listed but not actively traded stocks and bonds. Loans secured by stocks and bonds are subject to margin calls to maintain the loan to value ratio. Collateral is not released until the loan is repaid, and the borrower is generally required to pay interest monthly. There were no losses on loans secured by savings accounts or stock and bond certificates during 2001, 2000, or 1999. There were no loans secured by savings accounts or stock and bond certificates past due more than 90 days at December 31, 2001. There are no discernible delinquency or loss trends relating to loans secured by savings accounts or stock and bond certificates known to management.

Reference is also made to Note 4 of the Notes to Consolidated Financial Statements included in this Report for the composition of the loan portfolio by type of loan. This Note will indicate the relative size of the various types of loans to the portfolio in total. Reference is made to the Statistical Disclosures in this Report for an allocation of the allowance for loan losses by type of loan which also indicates management's assessment of the degree of risk that each type of loan carries.

The Bank is the principal originator of the loans it makes, with the exception of residential mortgage loans and home equity loans and lines of credit. These types of loans are predominately loans purchased from a network of brokers or other types of originators with whom the Bank does business. The Bank sells some loans in the secondary market and therefore derives a small amount of noninterest income from serviced loans. These income amounts are not significant to the amounts of noninterest income derived from other sources.

Reference is made to Note 4 of the Notes to Consolidated Financial Statements which contains the amounts of nonaccrual, restructured, and delinquent loans at December 31, 2001.

Carrollton Community Development Corporation (CCDC), a 96.4% owned subsidiary of Carrollton Bank, was established in 1995 for the purpose of promoting, developing, and improving the housing and economic conditions of people in Maryland

with particular emphasis in the Metropolitan Baltimore area. CCDC promotes through loans, investments, and other transactions, to increase housing for low and moderate income individuals.

Investment Activities. - The Company maintains a portfolio of investment securities to provide liquidity and income. The current portfolio amounts to about 30% of total assets, and is invested primarily in U.S. Government Agencies, state and municipal bonds, corporate bonds, and mortgage backed securities with maturities varying from 2002 to 2017. Reference is made to Note 3 of the Notes to Consolidated Financial Statements included in this Report and Statistical Disclosures for additional information concerning the investment portfolio.

Deposit Services. - The Bank offers a wide range of both personal and commercial types of deposit accounts and services as a means of gathering funds. Deposit accounts available include noninterest bearing demand checking, interest bearing checking (NOW accounts), savings, money market, certificates of deposit, and individual retirement accounts. These accounts carry varying fee structures depending on the level of services desired by the customer and varying interest rates depending on the balance in the account maintained by the customer. Commercial deposit customers may also choose an overnight investment account which automatically invests excess balances available in demand accounts on a daily basis in repurchase agreements. The Bank's customer base for deposits is primarily retail in nature. The Bank does offer certificates of deposit over \$100,000 to its retail and commercial customers. The Bank has used deposit brokers in the past and may do so in the future to meet liquidity needs. The balance of accounts over \$100,000 is not significant, and these accounts are offered principally as accommodations to existing customers.

Reference is also made to Note 8 of the Notes to Consolidated Financial Statements included in this Report for additional information concerning deposits of the Bank.

Brokerage Activities. - Carrollton Financial Services, Inc., a subsidiary of the Bank, provides full service brokerage services for stocks, bonds, mutual funds and annuities. For 2001, commission and other income totaled \$1,015,720 and income after taxes was \$235,352.

Sources of Business. - The major focus of the Bank's marketing efforts is both on individual consumers and on small to medium-sized businesses and professionals in the Bank's service area. The Bank's ability to generate deposits, loans and service income is dependent upon the growth of its market and the development and execution of a marketing strategy. Marketing primarily involves the print, television and radio media, and sponsorships of various prominent events in the Bank's market area. Direct mail is used on a sporadic basis, and direct calling on business customers is performed by branch and commercial lending personnel. The Bank's customers also promote the Bank through word of mouth referral. In its marketing efforts, the Bank emphasizes the advantages of dealing with a locally-owned institution which provides personalized service and is sensitive to the particular needs of consumers and businesses.

Competition. - The Bank faces strong competition in all areas of its operations. This competition comes from entities operating in Baltimore City, Baltimore County, Anne Arundel County and Carroll County, and includes branches of some of the largest banks in Maryland. Its most direct competition for deposits historically has come from other commercial banks, savings banks, savings and loan associations and credit unions. The Bank also competes for deposits with money market funds, mutual funds and corporate and government securities. The Bank competes with the same banking entities for loans, as well as mortgage banking companies and other institutional lenders. The competition for loans varies from time to time depending on certain factors, including, among others, the general availability of lendable funds and credit, general and local economic conditions, current interest rate levels, conditions in the mortgage market and other factors which are not readily predictable. Some of the Bank's competitors have greater assets and operating capacity than the Bank.

Asset Management. - The Bank makes available several types of loan services to its customers as described above, depending on customer needs. Recent emphasis has been made on originating short-term (one year or less), variable rate commercial loans and variable rate home equity lines of credit, with the balance of its funds invested in consumer/installment loans and real estate loans, both commercial and residential. The addition of a mortgage subsidiary in late 1997 resulted in growth in residential mortgage lending during 1998 and 1999. The Company made a decision to place the mortgage subsidiary in an inactive status in 2000. In addition, a portion of the Bank's assets is invested in high-grade securities and other investments in order to provide income, liquidity and safety. Such investments include U.S. government agency securities, corporate bonds, mortgage-backed securities and collateralized mortgage obligations, as well as advances of federal funds to other member banks of the Federal Reserve System. Subject to the effects of taxes, the Bank also invests in tax-exempt state and municipal securities with a minimum rating of "A" by a recognized ratings agency. The Bank's primary source of funds is customer deposits. Increased usage of wholesale funding sources in recent years has been necessary to support growth in the loan portfolio.

The risk of non-repayment (or deferred payment) of loans is inherent in the business of commercial banking, regardless of the type of loan or borrower. The Bank's efforts to expand its loan portfolio to small and medium-sized businesses may result in

the Bank undertaking certain lending risks which are somewhat different from those involved in loans made to larger businesses. The Bank's management evaluates all loan applications and seeks to minimize the exposure to credit risks through the use of thorough loan application, approval and monitoring procedures. However, there can be no assurance that such procedures significantly reduce all risks.

Employees. - As of December 31, 2001, the Bank and its subsidiaries had 136 full time equivalent employees, 41 of whom were officers. Each officer generally has responsibility for one or more loan, banking, customer contact, operations, or subsidiary functions. Non-officer employees are employed in a variety of administrative capacities. Management does not anticipate any inordinate difficulty in recruiting and training such additional officers and employees as it may need in the future. Management believes that relations with its employees are good.

SUPERVISION AND REGULATION

Supervision and Regulation of the Company. - As a bank holding company, the Company is subject to the Bank Holding Company Act of 1956, as amended (the "BHCA"). The BHCA is administered by the Board of Governors of the Federal Reserve System (the "Board of Governors"), and the Company is required to file with the Board of Governors such reports and information as may be required pursuant to the BHCA. The Board of Governors also may examine the Corporation and any of its nonbank subsidiaries. The BHCA requires every bank holding company to obtain the prior approval of the Board of Governors before: (i) it or any of its subsidiaries (other than a bank) acquires substantially all of the assets of any bank; (ii) it acquires ownership or control of any voting shares of any bank if after such acquisition it would own or control, directly or indirectly, more than five percent of the voting shares of such bank; or (iii) it merges or consolidates with any other bank holding company.

Under the BHCA, a bank holding company is generally prohibited from engaging in, or acquiring direct or indirect control of more than five percent of the voting shares of any company engaged in non-banking activities. A major exception to this prohibition is for activities the Board of Governors finds, by order or regulation, to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Board of Governors has determined by regulation to be properly incident to the business of a bank holding company are: making or servicing loans and certain types of leases; engaging in certain investment advisory and discount brokerage activities; performing certain data processing services; acting in certain circumstances as a fiduciary or as an investment or financial advisor; ownership of certain types of savings associations; engaging in certain insurance activities; and making investments in certain corporations or projects designed primarily to promote community welfare.

Certain provisions of the Federal Deposit Insurance Corporation Improvements Act of 1991 ("FDICIA") also may impact the operations of the Company. FDICIA requires that the Board of Governors adopt regulations establishing safety and soundness standards for bank holding companies relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate exposure; (v) asset growth; and (vi) compensation and benefit standards for officers, directors, employees and principal shareholders. The Board of Governors proposed regulations to implement this requirement in April 1993. FDICIA also requires any bank holding company which controls an undercapitalized insured bank to act as a "source of strength" to such bank. Finally, FDICIA permits the appropriate federal bank regulatory agency to require a bank holding company to divest itself of a bank subsidiary in certain circumstances.

The Company is an "affiliate" of the Bank under the Federal Reserve Act, which imposes certain restrictions on: (i) loans by the Bank to the Company; (ii) investments in the stock or securities of the Company; and (iii) the Bank taking stock or securities of the Company as collateral for loans by it to a borrower.

The Company also is an affiliate of the Bank under the Maryland Financial Institutions Article of the Annotated Code of Maryland (the "Financial Institutions Article"). As such, the Commissioner of Financial Regulation for the State of Maryland (the "Commissioner") has the same authority to examine the business of the Company that it has to examine the business of the Bank.

Federal law generally prohibits the current acquisition of banks or bank holding companies in Maryland by out-of-state banks or bank holding companies, although the Financial Institutions Article allows regional interstate banking by permitting banking organizations in certain states to acquire Maryland banking organizations if Maryland banking associations are allowed to acquire banking organizations in their states. As a result of this provision, banking organizations in other states, most significantly North Carolina, Pennsylvania and Virginia, have entered the Maryland market through acquisitions of Maryland institutions. Those acquisitions are subject to federal and Maryland approval. The so-called "Douglas Amendment" to the Bank Holding Company Act was amended effective September 29, 1995 to allow an "adequately capitalized and adequately managed" bank holding company to acquire a bank or substantially all of its assets located in any other state regardless of whether the acquisition is expressly authorized under state law.

President Clinton also signed into law a bill on June 1, 1997, which among other things, allows

interstate branching by banking organizations subject to each state's separate decision to allow interstate branch banking within the state. As a result of such legislation, it is anticipated that competition by financial institutions within Maryland may increase due to entrance into the market place by branches of out-of-state banks. Such legislation could also spur increased acquisition activity of Maryland institutions by out-of-state organizations. During the 1995 legislative session, the State of Maryland passed legislation to allow interstate branch banking within Maryland.

Supervision and Regulation of the Bank. - The Bank is the only direct subsidiary of the Company. The Bank operates as a banking institution incorporated under the laws of the State of Maryland and is subject to examination by the Commissioner. The Bank is not a member of the Federal Reserve System (an "insured nonmember bank") and as such, its primary federal regulator is the Federal Deposit Insurance Corporation (the "FDIC"). Deposits in the Bank are insured by the FDIC. The Commissioner and the FDIC regulate or monitor all areas of the Bank's operations, including reserves, loans, loans to directors, officers or principal shareholders, loans to one borrower, capital, investments, borrowings, deposits, mergers, issuance of securities, payment of dividends, interest rates payable on deposits, interest rates or fees chargeable on loans, establishment of branches, corporate reorganizations and maintenance of books and records.

Examinations. - Pursuant to FDICIA, and subsequent amendments thereto, examinations of insured nonmember banks having assets of \$250,000,000 or more must be conducted no less frequently than every 12 months. The Bank is subject to assessments by the FDIC to cover the costs of such examinations. As a result of such examinations, the FDIC may revalue assets of the Bank and require establishment of specific reserves in amounts equal to the difference between such revaluation and the book value of the assets.

Safety and Soundness. - The FDIC is authorized to promulgate regulations to ensure the safe and sound operations of insured nonmember banks and may impose various requirements and restrictions on the activities of insured nonmember banks. Additionally, under FDICIA, the FDIC was required to prescribe safety and soundness regulations relating to: (i) internal controls, information systems, and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate exposure; (v) asset growth; and (vi) compensation and benefit standards for officers, directors, employees and principal shareholders.

Loans and Deposit Products. - Interest and certain other charges collected or contracted for by the Bank are subject to state usury and consumer protection laws and certain federal laws concerning interest rates. The Bank's loan operations are also subject to certain federal laws applicable to credit transactions, such as the Truth-in-Lending Act (governing disclosures of credit terms to consumer borrowers), the Equal Credit Opportunity Act (prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit), the Fair Credit Reporting Act (governing the use of information from and provision of information to credit reporting agencies and others), the Fair Debt Collection Practices Act (governing the manner in which consumer debts may be collected), and the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws. The deposit operations of the Bank also are subject to the Electronic Funds Transfer Act (governing 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), the Truth-in-Savings Act (governing disclosures of terms applicable to deposit accounts), the Expedited Funds Availability Act (governing the availability of certain funds deposited into transaction accounts), and the rules and regulations of the Board of Governors implementing such acts.

Pursuant to FDICIA, the FDIC has adopted regulations prescribing standards for extensions of credit by insured nonmember banks secured by liens on or interests in real estate and made for the purpose of financing the construction of a building or other improvements to real estate. The FDIC regulations require insured nonmember banks to establish and maintain written internal real estate lending policies consistent with safe and sound banking practices and appropriate to the size of the bank. These policies must include loan portfolio diversification standards, prudent underwriting standards (including clear and measurable loan-to-value limits), loan administration procedures, and documentation, approval and reporting requirements to monitor compliance with the policies. Finally, the regulations require insured nonmember banks to monitor conditions in its real estate market to ensure that its lending policies continue to be appropriately based on current market conditions.

Capital Requirements. - Under regulations promulgated by the FDIC, insured nonmember banks currently are required to maintain "core" or "tier 1" capital of at least 3% of total assets (the "Leverage Ratio"). For all but the most highly rated banks, the minimum Leverage Ratio requirement will be 4% to 5% of total assets. Tier 1 capital consists of: (i) common shareholders' equity, noncumulative perpetual preferred stock and minority interests in consolidated subsidiaries; (ii) minus intangible assets (other than certain purchased mortgage and credit card servicing rights); (iii) minus certain losses, and minus investments in certain securities subsidiaries.

In addition, each insured nonmember bank also must maintain a "tier 1 risk-based capital ratio" of 4%. The "tier 1 risk-based capital ratio" is defined

in FDIC regulations as the ratio of tier 1 capital to "risk-weighted assets." A bank's total risk-weighted assets are determined by: (i) converting each of its off-balance sheet items to an on-balance sheet credit equivalent amount; (ii) assigning each on-balance sheet asset and the credit equivalent amount of each off-balance sheet item to one of the five risk categories established in the FDIC's regulations; and (iii) multiplying the amounts in each category by the risk factor assigned to that category. The sum of the resulting amounts constitutes total risk-weighted assets.

Each insured nonmember bank is required to maintain a "total risk-based capital ratio" of at least 8%. The "total risk-based capital ratio" is defined in FDIC regulations as the ratio of total qualifying capital to risk-weighted assets (as defined above). Total capital, for purposes of the risk-based capital requirement, consists of the sum of tier 1 capital (as defined for purposes of the Leverage Ratio) and supplementary capital. Supplementary capital includes such items as cumulative perpetual preferred stock, long-term and intermediate-term preferred stock, term subordinated debt and general valuation loan and lease loss allowances (but only in an amount of up to 1.25% of total risk-weighted assets). The maximum amount of supplementary capital that may be counted towards satisfaction of the total capital requirement is limited to 100% of core capital. Additionally, term subordinated debt and intermediate-term preferred stock only may be included in supplementary capital up to 50% of tier 1 capital.

Capital requirements higher than the generally applicable minimum requirements may be established for a particular insured nonmember bank if the FDIC determines that the bank's capital is or may become inadequate in view of its particular circumstances. Individual minimum capital requirements may be imposed where a bank is receiving special supervisory attention, has a high degree of exposure to interest rate risk, or poses other safety or soundness concerns. Deficient capital may result in the suspension of an institution's deposit insurance.

Under FDICIA, the FDIC was required to revise its risk-based capital standard to ensure that such standard takes adequate account of: (i) interest rate risk; (ii) concentration of credit risk; and (iii) the risk of nontraditional activities and to adequately reflect the actual performance and expected risk of loss on multifamily mortgages. Although the FDIC, together with the Office of the Comptroller of the Currency and the Board of Governors published a joint notice of proposed rule making addressing the interest rate risk issue, no final action has occurred with respect thereto nor has the FDIC taken any action to date with respect to concentration of credit risk, the risk of nontraditional activities or the expected risk on multifamily mortgages.

Prompt Corrective Action. - Under FDIC regulations, any insured nonmember bank that receives notice from the FDIC that it is undercapitalized, must file a capital restoration plan with the FDIC addressing, among other things, the manner in which the bank will increase its capital to comply with all applicable capital standards. Under the prompt corrective action regulation adopted by the FDIC, an institution will be considered "well capitalized" if the institution has a total risk-based capital ratio of 10% or greater, a tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater (provided the institution is not subject to an order, written agreement, capital directive or prompt corrective action to meet and maintain a specified capital level for any capital measure).

Holding Company Guaranty. - FDICIA and the regulations promulgated by the FDIC pursuant thereto also require any company that has control of an "undercapitalized" insured nonmember bank, in conjunction with the submission of a capital restoration plan by the bank, to guarantee that the bank will comply with the plan and provide appropriate assurances of performance. The aggregate liability of any such controlling company under such guaranty is limited to the lesser of: (i) 5% of the bank's assets at the time it became undercapitalized; or (ii) the amount necessary to bring the bank into capital compliance at the time the bank fails to comply with the terms of its capital plan.

Brokered and Other Deposits. - Under applicable FDIC regulations, only well-capitalized depository institutions may solicit, accept, renew or roll over any brokered deposit. Adequately-capitalized depository institutions may accept, renew or roll over brokered deposits only after obtaining a waiver from the FDIC. Adequately-capitalized institutions are subject to limits on rates of interest they may pay on brokered deposits. Undercapitalized institutions are subject to limits on rates of interest they may pay on deposits in general.

Limitation on Bank Activities. - The scope of activities in which an insured nonmember bank may engage and the permissible investments which an insured nonmember bank may make are subject to federal and Maryland law. Further, pursuant to FDICIA and the regulations of the FDIC promulgated pursuant thereto, an insured nonmember bank may engage only in those activities, and make only those investments, as are permissible for national banks. National banks generally are permitted to engage in certain enumerated banking functions and all such activities as are incidental thereto. Further, national banks, and as a result of FDICIA, insured nonmember banks are severely limited as to the types of debt and equity securities in which such banks may invest.

Transactions with Affiliates. - Transactions engaged in by an insured nonmember bank or one of its subsidiaries with affiliates of such bank are subject to the affiliate transactions restrictions contained in Section 23A and 23B of the Federal Reserve Act in the same manner and to the same extent as such restrictions apply to transactions

engaged in by a Federal Reserve System member bank or one of its subsidiaries with affiliates of that member bank. Section 23A of the Federal Reserve Act imposes both quantitative and qualitative restrictions on transactions engaged in by a member bank or one of its subsidiaries with an affiliate, while Section 23B of the Federal Reserve Act requires, among other things, that all transactions with affiliates be on terms substantially the same, or at least as favorable to the member bank or the subsidiary, as the terms that would apply, or would be offered in, a comparable transaction with an unaffiliated party.

Loans made by an insured nonmember bank to its directors, executive officers and principal shareholders, to the directors, executive officers and principal shareholders of its affiliates, or to the related interests of any of the foregoing (collectively, "insiders") must comply with Maryland law and the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and certain of the regulations of the Board of Governors promulgated pursuant thereto, except to the extent more stringent requirements are established by the FDIC. Among other things, Sections 22(g) and 22(h) of the Federal Reserve Act require that all loans to insiders be made on substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated borrowers and not involve more than the normal risk of repayment or present other unfavorable features. Maryland law further requires that such loans with limited exceptions be approved by the board of directors or executive committee and be reviewed every six months by the board. Additionally, the aggregate amount of loans or extensions of credit outstanding to any insider may not exceed the loans to one borrower limitation applicable to national banks. Further, FDICIA limits the aggregate amount of loans or extension of credit outstanding to all insiders to 100% of the amount of unimpaired capital and unimpaired surplus of the institution.

Regulatory Restrictions on the Payment of Dividends by the Bank to the Company. - FDICIA restricts the ability of federally-insured banks to pay any dividend (other than a dividend in the form of additional shares, or options to purchase additional shares, of the bank) if, after paying the dividend, the bank would be undercapitalized.

Community Reinvestment. - The Community Reinvestment Act (the "CRA") and the regulations of the FDIC require each insured nonmember bank to delineate its local community, adopt a CRA statement listing the local community and the types of credit the bank is prepared to extend in that community and to make its CRA statement available for public inspection. The FDIC periodically evaluates performance and compliance with the CRA statement. The failure to adequately perform community reinvestment activities could result in the denial of applications to acquire banking and non-banking institutions, establish branches, obtain deposit insurance for newly-chartered banks, or to relocate the main office or a branch office of a bank.

Insurance of Deposits. - The Bank's deposits are insured by the FDIC through the Bank Insurance Fund (the "BIF") up to a maximum of \$100,000 for each insured depositor. The insurance premium payable by each BIF member is based on the institution's assessment base (generally total deposit accounts subject to certain adjustments). The premiums are paid in quarterly assessments. The FDIC promulgated regulations establishing a risk-based assessment system commencing in 1993.

Insurance of deposits may be terminated by the FDIC after notice and hearing, upon a finding by the FDIC that an insured nonmember bank has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, rule, regulation, order or condition imposed by, or written agreement with, the FDIC. Additionally, the FDIC may temporarily suspend insurance on new deposits received by an insured nonmember bank that has no tangible capital and no goodwill includible in core capital.

Income Taxes. - The Company and its subsidiaries are required to file annual income tax returns with both the Internal Revenue Service (the "IRS") and the taxing authorities in any state in which they are qualified to do business. Because the Bank is under \$500 million in asset size, it is permitted to use the reserve method of tax accounting for determining bad debt deductions for income tax purposes. At December 31, 2001, the Bank had a tax bad debt reserve of \$609 thousand and a book bad debt reserve of \$3.3 million. The Bank has provided a deferred tax asset on its books for the difference between its tax and book bad debt reserves. If the Bank were to grow to a size of \$500 million or greater, it would be required to recapture its tax bad debt reserve over a four year period and pay taxes on that amount. For financial accounting purposes, the payment of these taxes would be offset by an increase in the deferred tax asset related to the difference between tax and book bad debt reserves, potentially subject to a total deferred tax asset limitation based on reasonable recovery under current accounting literature.

Although the Company currently pays income taxes based on current marginal rates, the Bank has a portfolio of state and municipal securities which earn interest which is not taxed for federal income tax purposes. For that reason, the Bank may be subject to the Alternative Minimum Tax ("AMT") provisions of the Internal Revenue Code. The AMT provisions in general limit the benefit available from investing in tax free obligations, and require companies to pay the higher of taxes computed at 34% of income less the tax free income, or 20% of total income. Any amounts paid under the AMT are carried over and are available as a credit in future years.

Securities Laws. - The Company and certain of its directors, officers and shareholders are subject to the Securities Act of 1934 and a broad range of both federal and state securities laws including, by way of example, the obligation to file annual, quarterly and other periodic reports with the appropriate authorities, soliciting proxies and conducting shareholders' meetings in accordance with the 1934 Act's proxy rules, and complying with the reporting and "short-swing" profit recovery provisions imposed by 1934 Act Section 16.

Monetary Policies. - Banking is a business which depends on interest rate differentials. In general, the differences between the interest paid by a bank on its deposits and other borrowings and the interest received by the bank on loans extended to its customers and securities held in its investment portfolio constitute the major portion of a bank's earnings. Consequently, the earnings growth of the Bank is influenced by economic conditions generally, both domestic and foreign, and also on the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve Board, which regulates the supply of money through various means. The nature and timing of changes in such policies and their impact on the Bank cannot be predicted, although this instrument of monetary policy may cause volatile fluctuations in short term interest rates, and it can have a direct, adverse effect on the operating results of financial institutions. Consequently, Federal Reserve monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

During the last several years, federal legislation and actions by various federal regulatory authorities have significantly increased the competition among commercial banks, savings and loan associations, savings banks, and other financial institutions through, among other things, the elimination of virtually all rate ceilings on interest-bearing deposits.

ITEM 2: DESCRIPTION OF PROPERTY

Both the Bank's main branch and certain of the Company's executive and administrative offices are located in the Bank's headquarters building which it owns in downtown Baltimore, Maryland. The Bank owns buildings for three of its other branch office locations as well. The Bank leases space for the remaining seven branches, and for its operations center which primarily houses support functions. Current lease terms expire in 2004 through 2009 and contain renewal options ranging from 4 to 24 years.

The Bank has purchased the furniture and fixtures required for its headquarters, operations center and branch network. The Bank has purchased the computer/teller equipment in its branch network and the equipment used for administrative functions.

ITEM 3: LEGAL PROCEEDINGS

There are no pending legal proceedings in which the Company or any of its subsidiaries is a defendant for claims or damages which exceed \$50,000.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

Not applicable.

Part II

ITEM 5: MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Trading and Dividends

As of December 31, 2001, there were approximately 488 shareholders of record of the Company. Since May 1994, the Company's Common Stock has traded on the NASDAQ National Market Tier of The NASDAQ Stock Market under the symbol "CRRB". Currently, there are two broker-dealers who make a market in the Common Stock.

The table below sets forth the high and low sales price for each quarter in the last two years, and cash dividends paid per share.

The ability of the Company to pay dividends in the future will be dependent on the earnings, if any, financial condition and business of the Company, as well as other relevant factors, such as regulatory requirements. No assurance can be given either that the Company's future earnings, if any, will be sufficient to enable it to pay dividends, or that if such earnings are sufficient, that the Company will not decide to retain such earnings for general working capital and other funding needs. In addition, the Company is highly dependent on dividends received from the Bank to enable it to pay dividends to shareholders. No assurance can be given that the Bank will continue to generate sufficient earnings to enable it to pay dividends to the Company, or that it will continue to meet regulatory capital requirements which, if not met, could prohibit payment of dividends to the Company.

<i>Period</i>	<i>Price per Share</i>				<i>Cash Dividends Paid per Share</i>	
	<i>2001</i>		<i>2000</i>		<i>2001</i>	<i>2000</i>
	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>		
1st Quarter	\$12.000	\$10.000	\$15.875	\$13.500	\$0.090	\$0.085
2nd Quarter	11.700	10.000	14.438	13.188	0.090	0.090
3rd Quarter	13.000	11.600	14.500	13.125	0.090	0.090
4th Quarter	13.500	11.550	14.125	11.375	0.090	0.090

Item 6: Selected Financial Data

The following statistical information should be read in conjunction with the Audited Consolidated Financial Statements contained in Item 8 of this document and Management's Discussion and Analysis of Financial Condition and Results of Operations. The following statistical information contained herein is presented to help the reader gain additional insight to information and discussion presented in the Audited Consolidated Financial Statements and in Management's Discussion and Analysis.

ITEM 6A: DISTRIBUTION OF ASSETS, LIABILITIES, AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

AVERAGE BALANCES, INTEREST AND YIELDS

The following chart contains average balance sheet information for 2001, 2000, and 1999, and indicates the related interest income or expense and calculated yield. Non-accruing loans are included in the average balance amounts of the applicable portfolio, but only the amount of interest actually recorded as income on non-accrual loans is included in the interest income column.

2001 AVERAGE BALANCES, INTEREST, AND YIELDS

	<i>2001</i>		
	<i>Average balance</i>	<i>Interest</i>	<i>Yield</i>
Assets			
Federal funds sold	\$9,631,537	\$386,156	4.01%
Investment securities			
U.S. Treasury	157,969	10,202	6.46
U.S. Government agency	58,176,745	3,231,072	5.55
State and municipal	6,097,110	392,332	6.43
Mortgage-backed securities	19,120,539	1,127,965	5.90
Corporate	6,443,265	388,839	6.03
Other	<u>7,237,982</u>	<u>559,282</u>	<u>7.73</u>
	<u>97,233,610</u>	<u>5,709,692</u>	<u>5.87</u>
Loans			
Demand and time	31,224,350	2,623,454	8.40
Residential mortgage	145,005,914	10,681,143	7.37
Commercial mortgage and construction	54,797,755	4,272,029	7.80
Installment and credit card	4,918,974	505,711	10.28
Lease financing	<u>1,586,061</u>	<u>142,246</u>	<u>8.97</u>
	<u>237,533,054</u>	<u>18,224,583</u>	<u>7.67</u>
Total interest-earning assets	344,398,201	24,320,431	7.06
Non-interest-bearing cash	19,962,053		
Premises and equipment	7,554,159		
Other assets	5,295,745		
Allowance for loan losses	(3,146,369)		
Unrealized gains/losses of available for sale securities	<u>1,405,193</u>		
	<u>\$375,468,982</u>	<u>\$24,320,431</u>	
Liabilities and Shareholders' Equity			
Interest-bearing deposits			
Savings and NOW	\$83,980,457	\$1,161,384	1.38%
Money market	42,466,305	1,384,638	3.26
Other time	<u>115,777,381</u>	<u>6,799,716</u>	<u>5.87</u>
	242,224,143	9,345,738	3.86
Borrowed funds	<u>59,638,438</u>	<u>3,526,617</u>	<u>5.91</u>
	301,862,581	12,872,355	4.26
Non-interest bearing deposits	38,867,266		
Other liabilities	2,589,605		
Shareholders' equity	<u>32,149,530</u>		
Total liabilities and shareholders' equity	<u>\$375,468,982</u>	<u>\$12,872,355</u>	
Net yield on interest-earning assets	<u>\$344,398,201</u>	<u>\$11,448,076</u>	<u>3.32%</u>

Interest on investments and loans is presented on a fully taxable equivalent basis, using regular income tax rates.

2000 AVERAGE BALANCES, INTEREST, AND YIELDS

	<i>2000</i>		
	<i>Average balance</i>	<i>Interest</i>	<i>Yield</i>
ASSETS			
Federal funds sold	\$7,133,152	\$510,601	7.16%
Investment securities			
U.S. Treasury	922,791	61,984	6.72
U.S. Government agency	43,411,997	2,829,542	6.52
State and municipal	12,519,336	826,993	6.61
Mortgage-backed securities	4,018,020	279,006	6.94
Other	6,545,933	455,529	6.96
	<u>67,418,077</u>	<u>4,453,054</u>	<u>6.61</u>
Loans			
Demand and time	26,519,768	2,636,511	9.94
Residential mortgage	192,901,840	14,644,161	7.59
Commercial mortgage and construction	47,172,991	4,134,491	8.76
Installment and credit card	5,814,850	579,160	9.96
Lease financing	2,402,565	237,414	9.88
	<u>274,812,014</u>	<u>22,231,737</u>	<u>8.09</u>
Total interest-earning assets	349,363,243	27,195,392	7.78
Non-interest-bearing cash	21,169,927		
Premises and equipment	8,348,640		
Other assets	4,751,394		
Allowance for loan losses	(2,942,829)		
Unrealized gains/losses of available for sale securities	(1,719,865)		
	<u>\$378,970,510</u>	<u>\$27,195,392</u>	
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest-bearing deposits			
Savings and NOW	\$81,124,906	\$2,159,277	2.66%
Money market	47,198,465	2,411,846	5.11
Other time	108,823,949	6,885,914	6.33
	<u>237,147,320</u>	<u>11,457,037</u>	<u>4.83</u>
Borrowed funds			
	71,810,671	4,464,647	6.22
	<u>308,957,991</u>	<u>15,921,684</u>	<u>5.15</u>
Non-interest bearing deposits	39,350,269		
Other liabilities	896,285		
Shareholders' equity	29,765,965		
Total liabilities and shareholders' equity	<u>\$378,970,510</u>	<u>\$15,921,684</u>	
NET YIELD ON INTEREST-EARNING ASSETS	<u>\$349,363,243</u>	<u>\$11,273,708</u>	<u>3.23%</u>

Interest on investments and loans is presented on a fully taxable equivalent basis, using regular income tax rates.

1999 Average Balances, Interest, and Yields

	<i>1999</i>		
	<i>Average balance</i>	<i>Interest</i>	<i>Yield</i>
ASSETS			
Federal funds sold	\$1,828,582	\$100,572	5.50%
Investment securities			
U.S. Treasury	1,566,850	97,391	6.22
U.S. Government agency	33,942,948	2,264,792	6.67
State and municipal	25,626,795	1,807,008	7.05
Mortgage-backed securities	7,944,031	498,237	6.27
Other	6,397,245	311,266	4.87
	<u>75,477,869</u>	<u>4,978,694</u>	<u>6.60</u>
LOANS			
Demand and time	26,641,534	2,518,184	9.45
Residential mortgage	144,647,615	10,618,154	7.34
Commercial mortgage and construction	42,565,422	3,851,809	9.05
Installment and credit card	7,071,784	672,279	9.51
Lease financing	3,664,060	334,229	9.12
	<u>224,590,415</u>	<u>17,994,655</u>	<u>8.01</u>
Total interest-earning assets	301,896,866	23,073,921	7.64
Non-interest-bearing cash	22,658,844		
Premises and equipment	7,709,859		
Other assets	5,084,922		
Allowance for loan losses	(2,633,176)		
Unrealized gains on available for sale securities	978,015		
	<u>\$335,695,330</u>	<u>\$23,073,921</u>	
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest-bearing deposits			
Savings and NOW	\$75,424,807	\$1,488,646	1.97%
Money Market	52,409,615	2,164,581	4.13
Other time	78,044,054	4,331,174	5.55
	<u>205,878,476</u>	<u>7,984,401</u>	<u>3.88</u>
Borrowed funds	58,298,888	2,969,248	5.09
	<u>264,177,364</u>	<u>10,953,649</u>	<u>4.15</u>
Non-interest-bearing deposits	38,549,704		
Other liabilities	1,873,242		
Shareholders' equity	31,095,020		
Total liabilities and shareholders' equity	<u>\$335,695,330</u>	<u>\$10,953,649</u>	
NET YIELD ON INTEREST-EARNING ASSETS	<u>\$301,896,866</u>	<u>\$12,120,272</u>	<u>4.01%</u>

Interest on investments and loans is presented on a fully taxable equivalent basis, using regular income tax rates.

Rate and Volume Variance

The following chart shows the changes in interest income and interest expense for the last two years resulting from changes in volume and changes in rates.

	2001 COMPARED TO 2000			2000 COMPARED TO 1999		
	Change Due to Variance In			Change Due to Variance In		
	Rates	Volumes	Total	Rates	Volumes	Total
Interest earned on						
Federal funds sold	\$(303,283)	\$178,838	\$(124,445)	\$118,278	\$291,751	\$410,029
Investment securities						
U.S. Treasury	(409)	(51,373)	(51,782)	4,626	(40,033)	(35,407)
U.S. Government agency	(560,819)	962,349	401,530	(67,058)	631,808	564,750
State and municipal	(10,426)	(424,235)	(434,661)	(55,776)	(924,239)	(980,015)
Mortgage-backed securities	(199,740)	1,048,699	848,959	27,002	(246,233)	(219,231)
Corporate	388,839	—	388,839	—	—	—
Other	55,594	48,159	103,753	137,028	7,235	144,263
	<u>(326,961)</u>	<u>1,583,599</u>	<u>1,256,638</u>	<u>45,822</u>	<u>(571,462)</u>	<u>(525,640)</u>
Loans						
Demand and time	(480,771)	467,714	(13,057)	129,836	(11,509)	118,327
Residential mortgage	(326,994)	(3,636,024)	(3,963,018)	483,807	3,542,200	4,026,007
Commercial mortgage and construction	(530,737)	668,275	137,538	(134,264)	416,946	282,682
Installment and credit card	15,780	(89,229)	(73,449)	26,371	(119,490)	(93,119)
Lease financing	(14,484)	(80,684)	(95,168)	18,256	(115,071)	(96,815)
	<u>(1,337,206)</u>	<u>(2,669,948)</u>	<u>(4,007,154)</u>	<u>524,006</u>	<u>3,713,076</u>	<u>4,237,082</u>
Total interest earned	<u>(1,967,450)</u>	<u>(907,511)</u>	<u>(2,874,961)</u>	<u>688,106</u>	<u>3,433,365</u>	<u>4,121,471</u>
Interest expense on						
Deposits						
Savings and NOW	(1,073,899)	76,006	(997,893)	558,129	112,502	670,631
Money market	(785,393)	(241,814)	(1,027,207)	462,492	(215,227)	247,265
Other time	(526,181)	439,983	(86,198)	846,563	1,708,177	2,554,740
Borrowed funds	(181,253)	(756,778)	(938,031)	807,224	688,175	1,495,399
Total interest expense	<u>(2,566,726)</u>	<u>(482,603)</u>	<u>(3,049,329)</u>	<u>2,674,408</u>	<u>2,293,627</u>	<u>4,968,035</u>
Net interest income	<u>\$599,276</u>	<u>\$(424,908)</u>	<u>\$174,368</u>	<u>\$(1,986,302)</u>	<u>\$1,139,738</u>	<u>\$(846,564)</u>

Interest on investments and loans is presented on a fully taxable equivalent basis, using regular income tax rates.

Item 6B: Investment Portfolio**Amortized Cost of Investments**

Reference is made to Note 3 of Notes to Consolidated Financial Statements for the amortized cost of investments at the end of 2001 and 2000. The carrying value of investments at the end of 1999 was as follows:

AVAILABLE FOR SALE	
U.S. Treasury	\$1,299,778
U.S. Government agency	40,552,503
Mortgage backed securities	6,355,114
State and municipal	21,519,116
Federal Home Loan Bank stock	3,300,000
Equity securities	4,113,427
	<u>\$77,139,938</u>
HELD TO MATURITY	
Foreign bonds	<u>\$50,000</u>

Note: Investments classified as available for sale are carried at market value whereas investments classified as held to maturity are carried at amortized cost.

MATURITY AND WEIGHTED AVERAGE YIELDS

The following charts show the maturity distribution for amortized cost and weighted average yields of debt securities in the Company's investment portfolio at December 31, 2001. Separate charts are presented for securities classified as available for sale and held to maturity. Because the amortized cost is shown and not market value, the totals of the available for sale securities will not agree with the amount shown on the Consolidated Balance Sheet for 2001 in Part II, Item 8.

MATURITY DISTRIBUTION—AMORTIZED COST

<i>Available for Sale</i>				
Description	<i>< 1 year</i>	<i>1 to 5 years</i>	<i>5 to 10 years</i>	<i>> 10 years</i>
U.S. Government agency	\$16,254,817	\$47,011,990	\$1,445,042	\$—
Mortgage backed securities (1)	—	1,040,622	2,025,432	16,692,707
State and municipal	—	502,970	1,635,857	3,753,119
Corporate bonds	—	7,739,978	—	—
	<u>\$16,254,817</u>	<u>\$56,295,560</u>	<u>\$5,106,331</u>	<u>\$20,445,826</u>
<i>Held to Maturity</i>				
Description	<i>< 1 year</i>	<i>1 to 5 years</i>	<i>5 to 10 years</i>	<i>> 10 years</i>
Foreign	<u>\$—</u>	<u>\$25,000</u>	<u>\$—</u>	<u>\$—</u>

(1) Mortgage backed securities are included in the maturity distribution table based on the average life of the security using anticipated prepayment rates.

WEIGHTED AVERAGE YIELD

<i>Available for Sale</i>				
Description	<i>< 1 year</i>	<i>1 to 5 years</i>	<i>5 to 10 years</i>	<i>> 10 years</i>
U.S. Government agency	2.06%	4.46%	4.19%	—
Mortgage backed securities	—	5.71%	5.91%	6.23%
State and municipal (1)	—	6.25%	6.94%	6.58%
Corporate bonds	—	6.02%	—	—
	<u>2.06%</u>	<u>4.72%</u>	<u>5.75%</u>	<u>6.29%</u>

<i>Held to Maturity</i>				
Description	<i>< 1 year</i>	<i>1 to 5 years</i>	<i>5 to 10 years</i>	<i>> 10 years</i>
Foreign	—	5.50%	—	—

(1) Yields on state and municipal obligations are computed on a tax equivalent basis using a 34% federal income tax rate.

ITEM 6C: LOAN PORTFOLIO**CLASSIFICATION OF LOANS**

Reference is made to Note 4 of Notes to Consolidated Financial Statements for the classification of loans at the end of 2001 and 2000. In addition to that information, the following information concerning loans is presented.

	<i>1999</i>	<i>1998</i>	<i>1997</i>
Real Estate:			
Residential	\$176,291,571	\$137,586,465	\$97,681,753
Commercial	37,091,072	35,379,717	34,247,855
Construction and land development	5,575,105	2,135,498	1,862,298
Demand and time	28,514,699	20,957,194	22,586,144
Lease financing	3,150,917	3,233,883	3,872,327
Installment and credit card	6,823,971	8,014,130	10,583,871
	<u>257,447,335</u>	<u>207,306,887</u>	<u>170,834,248</u>
Allowance for loan losses	2,836,291	2,387,732	2,302,981
Loans, net	<u>\$254,611,044</u>	<u>\$204,919,155</u>	<u>\$168,531,267</u>

MATURITIES AND INTEREST RATE SENSITIVITIES

The maturities and sensitivities to changes in interest rates for commercial demand and time loans and real estate—construction loans at December 31, 2001 is presented below:

	<i>Contractually Due</i>				
	<i>One year or less</i>	<i>After one year through five years</i>		<i>After five years</i>	
		<i>Variable</i>	<i>Fixed</i>	<i>Variable</i>	<i>Fixed</i>
Construction and land development	\$4,513,136	\$3,102,440	\$2,222,703	\$—	\$278,304
Commercial demand and time	19,627,995	3,752,622	8,030,423	1,045,430	1,525,876

RISK ELEMENTS

Reference is made to Note 4 of Notes to Consolidated Financial Statements for nonaccrual, past due and restructured loans at the end of 2001, 2000 and 1999. In addition to that information, the following information concerning risk elements is presented.

	<i>1998</i>	<i>1997</i>
Nonaccrual	\$205,074	\$84,312
Restructured	408,565	408,565
	<u>\$613,639</u>	<u>\$492,877</u>
Accruing loans past due more than 90 days	<u>\$1,536,802</u>	<u>\$268,931</u>

There are no other interest-bearing assets that would be required to be reported under this section if such assets were loans.

ITEM 6D: SUMMARY OF LOAN LOSS EXPERIENCE

The following charts show the level of loan losses recorded by the Company for the past five years, management's allocation of the allowance for loan losses by type of loan as of the end of each year, and other statistical information. The allocation of the allowance reflects management's analysis of economic risk potential by type of loan, and is not intended as a forecast of loan losses.

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

<i>Description</i>	<i>Years ended December 31</i>				
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
Balance at beginning of year	\$3,024,290	\$2,836,291	\$2,387,732	\$2,302,981	\$2,241,148
Charge-offs:					
Commercial	—	30,015	148,636	225,900	35,914
Lease financing	—	—	31,677	68,532	—
Real Estate:					
Residential	117,582	201,187	44,000	—	—
Commercial	—	—	—	102,300	—
Construction	—	—	—	—	—
Installment	184,559	153,197	78,512	276,951	221,855
	<u>302,141</u>	<u>384,399</u>	<u>302,825</u>	<u>673,683</u>	<u>257,769</u>
Recoveries:					
Commercial	17,269	51,115	105,227	51,690	12,051
Lease financing	—	—	4,065	6,020	—
Real Estate:					
Residential	22,802	30,317	12,000	—	—
Commercial	—	—	—	22,258	—
Construction	—	—	—	—	—
Installment	26,587	42,966	32,252	63,466	67,551
	<u>66,658</u>	<u>124,398</u>	<u>153,544</u>	<u>143,434</u>	<u>79,602</u>
Net charge-offs	<u>235,483</u>	<u>260,001</u>	<u>149,281</u>	<u>530,249</u>	<u>178,167</u>
Provision charged to operations	<u>550,000</u>	<u>448,000</u>	<u>597,840</u>	<u>615,000</u>	<u>240,000</u>
Balance at end of the year	<u>\$3,338,807</u>	<u>\$3,024,290</u>	<u>\$2,836,291</u>	<u>\$2,387,732</u>	<u>\$2,302,981</u>
Ratio of net charge-offs to average loans outstanding	.10%	.09%	.07%	.28%	.11%

The provision charged to operations for 2001, 2000, and 1999 is discussed in the section on Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company's provisions in 1998 and 1997 related to the level of net losses incurred and to loan portfolio growth in each year.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES*Allocated Amount of the Allowance—Years Ended December 31*

PORTFOLIO	2001	2000	1999	1998	1997
Commercial(a)	\$607,323	\$910,445	\$565,474	\$739,235	\$423,782
Real Estate:					
Residential	707,061	763,017	434,500	508,999	565,113
Commercial	775,321	349,594	356,711	955,747	682,604
Construction	—	—	—	6,767	9,311
Installment	173,166	207,061	341,190	116,312	211,704
Unallocated	1,075,936	794,173	1,138,416	60,672	410,467
	<u>\$3,338,807</u>	<u>\$3,024,290</u>	<u>\$2,836,291</u>	<u>\$2,387,732</u>	<u>\$2,302,981</u>

Percent of Loans in Each Category to Total Loans—Years Ended December 31

PORTFOLIO	2001	2000	1999	1998	1997
Commercial (a)	16.0%	10.5%	12.2%	14.7%	15.5%
Real Estate:					
Residential	53.5	70.0	68.8	63.0	57.2
Commercial	28.5	17.0	15.7	16.0	20.0
Construction	0	0.3	0.7	0.6	1.1
Installment	2.0	2.2	2.6	5.7	6.2
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(a) Commercial loans includes lease financing.

ITEM 6E: DEPOSITS

Reference is made to the tables for Average Balances, Interest and Yields under Item 6A of this section. Reference is made to Note 8 of Notes to Consolidated Financial Statements for additional information concerning deposits.

ITEM 6F: RETURN ON EQUITY AND ASSETS

DESCRIPTION	2001	2000	1999
Return on average assets	0.51%	0.46%	0.85%
Return on average equity	6.01%	5.87%	9.15%
Dividend payout ratio	50.43%	55.58%	30.37%
Average equity to average assets	8.56%	7.85%	9.26%

ITEM 6G: SHORT-TERM BORROWINGS

Reference is made to Note 10 of Notes to Consolidated Financial Statements for a description of the general terms of short-term borrowings, and for information related to repurchase agreements.

Other short term borrowings, consisting of the combined amounts for Advances from the Federal Home Loan Bank and Notes Payable-U.S. Treasury, are as follows.

OTHER SHORT-TERM BORROWINGS:	2001	2000	1999
Total outstanding at period-end	\$45,657,726	\$50,984,859	\$67,830,856
Average amount outstanding during period	46,574,541	56,867,533	43,553,054
Maximum amount outstanding at any period-end	51,370,409	65,129,886	67,830,856
Weighted average interest rate at period-end	6.76%	6.61%	5.17%
Weighted average interest rate for the period	6.73%	6.44%	5.34%

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**EARNINGS 2001 COMPARED TO 2000****SUMMARY**

Carrollton Bancorp reported net income for 2001 of \$1,933,000, or \$0.71 per share, representing an 11% increase from 2000 net income of \$1,748,000, or \$0.64 per share. Included in the 2001 results was a \$254,000 loss on the sale of \$37 million of residential loans of as part of the Company's plan to address asset/liability sensitivity. The loan portfolio decreased 21% to \$220,539,000 as a result of residential loan sales in 2001 and the number of loans refinancing. The loan portfolio contraction, as well as the lowering of interest rates by the Federal Reserve 11 times, contributed to a decrease in interest income over 2000. Non-interest income from fees, decreased by 3% compared to 2000. Fees generated by the ATM network of 130 machines and income from national point of sale sponsorships grew during 2001.

NET INTEREST INCOME

Net interest income is the principal source of earnings for a banking company. It represents the difference between the interest income earned on loans and other investments, and the interest paid on deposits and borrowed funds. For analysis, net interest income is measured on a fully taxable equivalent basis. To determine the taxable equivalent basis, an adjustment is made to income from investments in state and municipal securities which achieve a federal or state tax benefit, to dividends from equity stocks which achieve a dividend exclusion, and to certain loans which are tax exempt.

In 2001, net interest income on a taxable equivalent basis increased by \$174,000 to \$11.4 million as a net result of a decrease in the rates paid on deposit accounts exceeding the reduction in rates on earning assets. On average, the loan portfolio decreased 14% from 2000 while the investment portfolio increased by 44%. The yield on the loan portfolio decreased from 8.09% in 2000 to 7.67% in 2001. Changes in loan portfolio mix, the prime rate changes, and a very competitive loan market caused the loan yield to decline. The yield on investment securities also declined to 5.87% in 2001 from 6.61% in 2000. The reduction in the loan portfolio and decreased yields, caused total interest income on a tax equivalent basis to fall from \$27.2 million in 2000 to \$24.3 million in 2001.

Interest expense decreased \$3.0 million to \$12.9 million in 2001 from \$15.9 million in 2000. Interest expense decreased due to a decrease in both interest bearing liabilities and rates. Interest expense on deposits decreased in 2001 from 2000 even with higher deposit levels due to decreased cost of interest-bearing deposits, which decreased from 4.83% in 2000 to 3.86% in 2001. The cost of borrowed funds decreased to 5.91% due to changes in the composition of funding sources in 2001 from 6.22% in 2000. The table for Rate and Volume Variance Analysis included in this report shows the decrease in interest expense resulted from decreased volume and rate on deposits and borrowings. The growth in interest-bearing liabilities supported loan portfolio growth.

PROVISION FOR LOAN LOSSES

The provision for loan losses was \$550,000 for 2001 compared to \$448,000 for 2000. Non-accrual, restructured, and delinquent loans over 90 days to total loans decreased to 0.55% at the end of 2001 compared to 0.91% in 2000. This decrease was due to decreased delinquencies. As of December 31, 2001, there was a decrease of loan delinquencies of \$445,000 and impaired loans remained constant. The ratio of loan losses to average loans increased in 2001 to 0.10% compared to 0.09% for 2000.

On a monthly basis, management reviews all loan portfolios to determine trends and monitor asset quality. For consumer loan portfolios, this review generally consists of reviewing delinquency levels on an aggregate basis with timely follow-up on accounts that become delinquent. In commercial loan portfolios, delinquency information is monitored and periodic reviews of business and property leasing operations are performed on an individual loan basis to determine potential collection and repayment problems.

NON-INTEREST INCOME

For 2001, non-interest income excluding securities gains and gains or losses on loan sales decreased by 3% compared to 2000. Brokerage commissions decreased \$258,000 or 20% in 2001 due to the economic slowdown and investor concerns over the stock market. Other fees and commissions increased \$100,000 principally as a result of increases in national point of sale revenue. ATM fee income declined due to the discontinuation of the Target relationship in July of 2001.

Net securities losses in 2001 were \$3,000 compared to gains of \$256,000 in 2000.

The Company continued to sell loans generated by its mortgage unit, which was inactivated during the second quarter of 2000, as well as other loans held in its portfolio. These transactions generated losses of \$254,000 in 2001 compared to a gain of \$18,000 in 2000. At December 31, 2001, the Company serviced loans for others totaling \$13,107,093.

NON-INTEREST EXPENSES

In 2001, non-interest expenses decreased by \$1.1 million or 7%. Salaries and benefits decreased by \$430,000, or 6%. In certain areas of the Company, staff reductions occurred through attrition

and the positions were eliminated. Full time equivalent staff decreased from 149 positions at the end of 2000 to 136 positions at December 31, 2001. Occupancy expenses decreased \$158,000 to \$1,547,000 in 2001, due to a write-down of premises of approximately \$190,000 in 2000. Furniture and equipment expense increased a net \$41,000, Management's decision to accelerate the depreciation on its ATMs was largely offset by the variable cost component of the ATM machines placed in storage at the discontinuation of the Target relationship. Other operating expenses decreased \$580,000, or 10%. A significant portion of this decrease relates to ATM transactions costs.

INCOME TAX PROVISION

For 2001, the effective tax rate for the Company increased to 30% compared to 25% for 2000.

FINANCIAL CONDITION

SUMMARY

Total assets of the Company decreased by 8% to \$357.2 million at December 31, 2001 versus \$387.9 million at the end of 2000. Investment securities increased to \$107.7 million at December 31, 2001. Total loans at December 31, 2001 declined 21% to \$220.5 million compared to \$278.0 million at the end of 2000. Interest earning assets decreased to \$327.6 million but were 91.7% of total assets at December 31, 2001.

INVESTMENT SECURITIES

Securities increased to \$107.7 million at December 31, 2001 from \$73.4 million at December 31, 2000. The portfolio consists primarily of U.S. Government agency securities, mortgage-backed securities, corporate bonds, and state and municipal obligations. The income from state and municipal obligations is exempt from federal income tax. Certain agency securities are exempt from state income taxes. The Company uses its investment portfolio as a source of both liquidity and earnings.

The Company reinvested the proceeds of the loan sales during the year into the investment portfolio, structured in a manner as to provide liquidity for funding future loan growth, as well as for the runoff of higher cost funding sources. These transactions were principally undertaken to increase liquidity and reduce interest rate risk.

LOANS

Total loans decreased \$58 million or 20% from 2000 to \$220.5 million at December 31, 2001. The decrease in loans was primarily in real estate lending, due to \$37 million in loan sales in 2001, equity loans and lines of credit with other consumer products declining during the year due to the heavy volume of refinancing. Both the residential mortgage and equity loan units are principally wholesale operations. Commercial loans equaled 44% of total loans at the end of the year and amounted to \$98 million. Consumer loans amounted to \$122 million and were 56% of total loans.

ALLOWANCE FOR LOAN LOSSES

At December 31, 2001, the allowance for loan losses was \$3.3 million, a 10% increase from the end of 2000. The ratio of the allowance to total loans was 1.51% at December 31, 2001 and 1.09% at December 31, 2000. The ratio of net loan losses to average loans outstanding for 2001 was 0.10% compared to 0.09% for 2000. The ratio of non-accrual loans, restructured loans, and loans delinquent more than 90 days to total loans decreased to 0.55% at December 31, 2001 from .91% at the end of 2000. The ratio of real estate secured loans to total loans decreased to 82% at the end of 2001 from 87% at the end of 2000.

An allowance for loan losses is maintained to absorb losses in the existing loan portfolio. The allowance is a function of specific loan allowances, general loan allowances based on historical loan loss experience and current trends, and allowances based on general economic conditions that affect the collectibility of the loan portfolio. These can include, but are not limited to exposure to an industry experiencing problems, changes in the nature or volume of the portfolio and delinquency and nonaccrual trends. The portfolio review and calculation of the allowance is performed by management on a continuing basis.

All loan reserves are subject to regulatory examinations and determination as to the appropriateness of the methodology and adequacy on an annual basis.

The specific allowance is based on regular analysis of the loan portfolio and is determined by analysis of collateral value, cash flow and guarantor capacity, as applicable. The specific allowance was \$1,126,700 and \$1,007,408 as of December 31, 2001 and 2000, respectively.

The general allowance is calculated using internal loan grading results and appropriate allowance factors on approximately 10 classes of loans. This process is reviewed on a regular basis. The allowance factors may be revised whenever necessary to address current credit quality trends or risks associated with particular loan types. Historic trend analysis is utilized to obtain the factors to be applied. The general allowance was \$1,136,171 and \$1,222,709 as of December 31, 2001 and 2000, respectively.

Allocation of a portion of the allowance does not preclude its availability to absorb losses in other categories. An unallocated reserve is maintained to recognize the imprecision in estimating and measuring loss when evaluating the allowance for individual loans or pools of loans. The unallocated

portion of allowance was higher at December 31, 2001, than it was at December 31, 2000. The weak economy and an increase in commercial loans warrant a larger unallocated reserve. If the Bank were to incur a loss on one of its larger loans, it could decrease the unallocated reserve significantly.

During the years ended December 31, 1997 through 2001, the unallocated portion of the allowance for loan losses has fluctuated with the specific and general allowances so that the total allowance for loan losses would be at a level that management believes is the best estimate of possible future credit losses at the balance sheet date. The specific allowance may fluctuate from period to period if the balance of what management considers problem loans changes. The general allowance will fluctuate with changes in the mix of the Company's loan portfolio, economic conditions, or specific industry conditions. The requirements of the Company's federal regulators is a consideration in determining the required total allowance.

Management believes that it has adequately assessed the risk of loss in the loan portfolios based on a subjective evaluation and has provided an allowance which is appropriate based on that assessment. Because the allowance is an estimate based on current conditions, any change in the economic conditions of the Company's market area or change within a borrower's business could result in a revised evaluation which could alter the Company's earnings.

FUNDING SOURCES

Total deposits at December 31, 2001 decreased by \$26.5 million to \$265.5 million from the end of 2000. Interest-bearing accounts decreased by \$28.5 million and non-interest bearing deposits increased by \$2.0 million. Overall deposit contraction is a result of the Company's efforts to reduce interest rate risk on its balance sheet. The Company made a concerted effort to reduce the level of high-yield deposits.

Due to the loan sales, a significant decline in higher costing deposits, and other borrowings was accomplished. Advances from the Federal Home Loan Bank decreased to \$45 million at the end of 2001 compared to \$50 million at the end of 2000. Borrowings for federal funds purchased, securities sold under agreements to repurchase and notes payable to the US Treasury decreased by \$1.5 million from December 31, 2000 to 2001.

CAPITAL

At December 31, 2001, shareholders' equity was \$32.6 million, an increase of \$2.1 million from 2000. The increase in stockholders' equity was largely due to a \$1.3 million fair market value adjustment of the investment portfolio as required by Statement No. 115 of the Financial Accounting Standards Board. The Company paid shareholders dividends totaling \$974,784, and net income for 2001 was \$1.9 million. In addition, the Company purchased and retired common stock for \$79,044 in 2001. Stockholders' equity amounted to 9.14% of total assets at December 31, 2001 compared to 7.86% at the end of 2000. The decrease in this ratio was caused by asset growth, but remains at a very strong level.

Bank holding companies and banks are required by the Federal Reserve and FDIC to maintain minimum levels of Tier 1 (or Core) and Tier 2 capital measured as a percentage of assets on a risk-weighted basis. Capital is primarily represented by shareholders' equity, adjusted for the allowance for loan losses and certain issues of preferred stock, convertible securities, and subordinated debt, depending on the capital level being measured. Assets and certain off-balance sheet transactions are assigned to one of five different risk-weighting factors for purposes of determining the risk-adjusted asset base. The minimum levels of Tier 1 and Tier 2 capital to risk-adjusted assets are 4% and 8%, respectively, under the regulations.

In addition, the Federal Reserve and the FDIC require that bank holding companies and banks maintain a minimum level of Tier 1 (or Core) capital to average total assets excluding intangibles for the current quarter. This measure is known as the leverage ratio. The current regulatory minimum for the leverage ratio for institutions to be considered adequately capitalized is 4%, but could be required to be maintained at a higher level based on the regulator's assessment of an institution's risk profile. The following chart shows the regulatory capital levels for the Company and Bank at December 31, 2001 and 2000. The Company's subsidiary bank also exceeded the FDIC required minimum capital levels at those dates by a substantial margin. Based on the levels of capital, the Company and the Bank are well capitalized.

At December 31

RATIO	MINIMUM	CARROLLTON BANCORP		CARROLLTON BANK	
		2001	2000	2001	2000
Leverage Ratio	4%	8.9%	7.8%	7.7%	7.4%
Risk-based					
Capital:					
Tier 1 (Core)	4%	13.2%	11.0%	11.4%	9.7%
Tier 2 (Total)	8%	14.6%	12.2%	12.7%	10.8%

LIQUIDITY

Liquidity management ensures that funds are available when required to meet deposit withdrawals, loan commitments, and operating expenses. These funds are supplied by deposits, loan repayments, security maturities and can be raised by liquidating assets or through additional borrowings. Securities classified as available for sale can be liquidated or pledged to secure borrowed

funds to provide necessary liquidity. In addition, the Company has unsecured lines of credit outstanding under which it could borrow \$4 million, and has borrowing capacity with the Federal Home Loan Bank of \$52 million, which is collateralized by a security interest in the Company's residential first mortgage loans as well as pledged investment securities.

At December 31, 2001, the Company had outstanding loan commitments and unused lines of credit totaling \$93.8 million. Of this total, management places a high probability for funding within 1 year on approximately \$30.0 million. The remaining amount is mainly unused home equity lines of credit on which management places a low probability for required funding.

INTEREST RATE RISK

The level of income of a financial institution can be affected by the repricing characteristics of its assets and liabilities due to changes in interest rates. This is referred to as interest rate risk. Financial institutions allocate significant time and resources to managing interest rate risk because of the impact that interest rate changes can have on the net interest margin and earnings. Management continues to seek reasonable ways to reduce its exposure to interest rate shifts. A static gap analysis is used by the Company as one tool to monitor interest rate risk. A static gap analysis measures the difference, or the "gap", between the amount of assets and liabilities repricing within a given time period. The Company also performs rate shock analyses which estimate changes in the net interest margin for parallel rising and falling interest rate environments. Management also calculates and monitors other ratios on a monthly basis that provide additional information relating to certain aspects of asset/liability management. This information, together with information about forecasted future interest rate trends, is used to manage the Company's asset and liability positions. Management uses this information as a factor in decisions made about maturities for investment of cash flows, classification of investment securities purchases as available for sale or held to maturity,

emphasis of variable rate or fixed rate loans and short or longer term deposit products in marketing campaigns, and deposit account pricing to alter asset and liability repricing characteristics.

At December 31, 2001, the Company was in a liability sensitive position amounting to 5.0% of assets within a one-year time horizon. This is within the targets as established by the Asset/Liability Management Policy approved by the Board of Directors. Although the Company was at a negative asset/liability position at December 31, 2001, the Company can experience significant volatility in its asset/liability position by virtue of its funding of longer term mortgage loans with relatively short repricing borrowings while it works to sell the loans. Management continues to work to structure borrowing terms that more closely match asset repricing characteristics, keeping in mind the overall balance sheet strategy of the Company. Theoretically, a liability sensitive position is preferable in a falling interest rate climate since more liabilities will reprice downward as interest rates fall than will assets, and an asset sensitive position is preferable in a rising rate environment.

The following chart shows the static gap position for interest sensitive assets and liabilities of the Company as of December 31, 2001. The chart is as of a point in time, and reflects only the contractual terms of the loan or deposit accounts in assigning assets and liabilities to the various repricing periods except that deposit accounts with no contractual maturity, such as money market, NOW and savings accounts, have been allocated evenly over a five year period. In addition, the maturities of investments shown in the gap table will differ from contractual maturities due to anticipated calls of certain securities based on current interest rates. While this chart indicates the opportunity to reprice assets and liabilities within certain time frames, it does not reflect the fact that interest rate changes occur in disproportionate increments for various assets and liabilities.

Period from December 31, 2001 in which assets and liabilities reprice

	0 to 90 days	91 to 365 days	1 to 2 years	2 to 5 years	> 5 year
ASSETS					
Short term investments	\$1,381	\$—	\$—	\$—	\$—
Securities	44,427	16,731	20,213	17,726	8,615
Loans	83,778	5,157	11,775	40,566	79,264
	<u>129,586</u>	<u>21,888</u>	<u>31,988</u>	<u>58,292</u>	<u>87,879</u>
Liabilities:					
Deposits	28,383	61,360	72,629	102,707	450
Borrowings	11,890	—	—	45,000	—
	<u>40,273</u>	<u>61,360</u>	<u>72,629</u>	<u>147,707</u>	<u>450</u>
Gap position:					
Period	89,313	(39,472)	(40,641)	(89,415)	87,429
% of Assets	23.0%	(10.2)%	(10.5)%	(23.0)%	22.5%
Cumulative	89,313	49,841	9,200	(80,215)	7,214
% of Assets	23.0%	12.8%	2.4%	(20.7)%	1.9%
Cumulative risk sensitive assets to risk sensitive liabilities	3.22	1.49	1.05	0.75	1.02

NEW ACCOUNTING PRONOUNCEMENTS

FASB Statement No. 141, *Business Combinations* requires that business combinations be accounted for using the purchase method. The popular pooling-of-interest method is no longer permitted. This Statement applies to business combinations initiated after June 30, 2001.

FASB Statement No. 142, *Goodwill and Other Intangible Assets* changes the accounting for acquired goodwill and other intangibles. Annually, management should review these items to determine if they should be reduced due to impairment. Systematic amortization is no longer permitted. The effective date of the Statement is for fiscal years beginning after December 15, 2001. Core deposit intangibles are not goodwill and are still amortizable. The Company has no goodwill on its balance sheet. It does have a core deposit intangible. The Company complies with the provisions of the Statement.

FASB Statement No. 143, *Accounting for Asset Retirement Obligations* applies to legal obligations associated with retirement of a tangible long-lived asset. The statement requires that management recognize the fair value of an asset retirement obligation in the period incurred, adding capitalization of this cost to the cost of the asset. Annually the asset, including the capitalized cost, should be reviewed for impairment. The effective date of the Statement is for years beginning after June 15, 2002.

EARNINGS 2000 AS COMPARED TO 1999

SUMMARY

Carrollton Bancorp reported net income for 2000 of \$1,748,000, or \$0.64 per share, representing a 39% decrease from 1999 net income of \$2,846,000, or \$1.01 per share. Part of the earnings decrease was due to nonrecurring gains. In 1999, a non-recurring gain on the sale of the merchant services unit amounted to \$823,000 or \$0.29 per share on an after tax basis. The loan portfolio grew 7% to \$278,020,000 as a result of residential and commercial loan production. The loan portfolio growth contributed to a 20% increase in interest income over 1999. Non-interest income from fees, decreased by 14% compared to 1999. Fees generated by the ATM network of 174 machines and income from national point of sale sponsorships grew significantly during 2000, however, total fee income decreased due to the sale of the merchant services unit in 1999. Included in expense were the variable cost components of fee income which grew in relation to fee growth, but saw a reduction due to the elimination of the merchant services processing costs.

NET INTEREST INCOME

Net interest income is the principal source of earnings for a banking company. It represents the difference between the interest income earned on loans and other investments, and the interest paid on deposits and borrowed funds. For analysis, net interest income is measured on a fully taxable equivalent basis. To determine the taxable equivalent basis, an adjustment is made to income from investments in state and municipal securities which achieve a federal or state tax benefit, to dividends from equity stocks which achieve a dividend exclusion, and to certain loans which are tax exempt.

In 2000, net interest income on a taxable equivalent basis decreased by \$847,000 to \$11.3 million as a net result of increased

volume in

the loan portfolio and an increase in the rates paid on deposit accounts. On average, the loan portfolio increased 22% over 1999 while the investment portfolio decreased by 11%. The yield on the loan portfolio increased from 8.01% in 1999 to 8.09% in 2000. Changes in loan portfolio mix and a very competitive loan market caused the loan yield to remain steady. The yield on investment securities also increased slightly to 6.61% in 2000 from 6.60% in 1999. The growth in the loan portfolio and increased yields, caused total interest income on a tax equivalent basis to rise from \$23.1 million in 1999 to \$27.2 million in 2000.

Interest expense increased \$4.9 million to \$15.9 million in 2000 from \$11.0 million in 1999. Interest expense increased due to an increase in both interest bearing liabilities and rates. Interest expense on deposits increased in 2000 from 1999 due to higher deposit levels and the increased cost of interest-bearing deposits, which increased from 3.88% in 1999 to 4.83% in 2000. The cost of borrowed funds increased due to changes in the composition of funding sources to 6.22% in 2000 from 5.09% in 1999. The table for Rate and Volume Variance Analysis included in this report shows the increase in interest expense resulted from increased volume and rate on deposits and borrowings. The growth in interest-bearing liabilities supported loan portfolio growth.

PROVISION FOR LOAN LOSSES

The provision for loan losses was \$448,000 for 2000 compared to \$597,840 for 1999. Non accrual, restructured, and delinquent loans over 90 days to total loans increased to 0.91% at the end of 2000 compared to 0.54% in 1999. This increase was due to increased delinquencies. As of December 31, 2000, there was an increase of loan delinquencies of \$445,000 and an increase of impaired loans of \$302,000. The Company elected to buy a participation back on a commercial loan, classified as impaired, at a discount. The loan continues to pay in accordance with the restructured terms, and the bank expects no loss on the borrowing. The ratio of loan losses to average loans also increased in 2000 to 0.09% compared to 0.07% for 1999.

On a monthly basis, management reviews all loan portfolios to determine trends and monitor asset quality. For consumer loan portfolios, this review generally consists of reviewing delinquency levels on an aggregate basis with timely follow-up on accounts that become delinquent. In commercial loan portfolios, delinquency information is monitored and periodic reviews of business and property leasing operations are performed on an individual loan basis to determine potential collection and repayment problems.

NON-INTEREST INCOME

For 2000, non-interest income excluding securities gains, gains on the sale of a business unit, and gains on loan sales decreased by 14% compared to 1999, due to the sale of the merchant services in 1999. Brokerage commissions increased \$261,000 or 26% in 2000 due to increased sales. Other fees and commissions decreased \$1.4 million principally as a result of the sale of merchant services. ATM fee income growth came through additional machines placed in service.

During the third quarter of 1999, the Company sold the contracts to process merchant credit card transactions for business customers, and a small amount of related equipment, for a gain of \$1,554,526. The merchant services unit was part of the Company's Electronic Banking segment that management felt was becoming less profitable due to competitive pressures in the business of offering merchant credit card discount services.

Net securities gains in 2000 were \$256,000 compared to \$240,000 in 1999.

The Company continued to sell loans generated by its mortgage unit, which was inactivated during the second quarter of 2000, as well as other loans held in its portfolio. These transactions generated gains of \$18,000 in 2000 compared to \$250,000 in 1999. At December 31, 2000, the Company serviced loans for others totaling \$13,107,093.

NON-INTEREST EXPENSES

In 2000, non-interest expenses decreased by \$1.9 million or 11%. Salaries and benefits decreased by \$134,000, or 2%. In certain areas of the Company, staff reductions occurred through attrition and the positions were eliminated. Full time equivalent staff decreased from 155 positions at the end of 1999 to 149 positions at December 31, 2000. Occupancy expenses increased \$115,000 to \$1,705,000 in 2000, due to a write-down of premises approximately \$190,000 in 2000. Furniture and equipment expense increased primarily due to the depreciation of ATM machines purchased plus the related maintenance contracts expense. Other operating expenses decreased \$2.1 million, or 27%. A significant portion of this decrease relates to merchant services and ATM transactions costs.

INCOME TAX PROVISION

For 2000, the effective tax rate for the Company increased to 25% compared to 24% for 1999. This increase was primarily due to a decrease in tax exempt income associated with the investment portfolio.

FINANCIAL CONDITION

SUMMARY

Total assets of the Company increased by 3% to \$388.0 million at December 31, 2000 versus \$375.6 million at the end of 1999. Investment securities decreased to \$73.4 million at December 31, 2000. Total loans at December 31, 2000 grew 7% to \$278.0 million compared to \$260.0 million at the end of 1999. Interest earning

assets increased to \$351.8 million and were 90.4% of total assets at December 31, 2000.

INVESTMENT SECURITIES

Securities decreased to \$73.4 million at December 31, 2000 from \$75.8 million at December 31, 1999. The portfolio consists primarily of U.S. Treasury securities, U.S. Government agency securities, mortgage-backed securities, and state and municipal obligations. The income from state and municipal obligations is exempt from federal income tax. Certain agency securities are exempt from state income taxes. The Company uses its investment portfolio as a source of both liquidity and earnings.

The Company liquidated \$22.9 million of available for sale securities during 2000. These transactions were principally undertaken to increase liquidity and reduce interest rate risk.

LOANS

Total loans increased \$18 million or 7% from 1999 to \$278.0 million at December 31, 2000. Loan growth was primarily in real estate lending, equity loans and lines of credit with other consumer products declining during the year. Both the residential mortgage and equity loan units are principally wholesale operations. Commercial loans equaled 30% of total loans at the end of the year and amounted to \$82 million. Consumer loans amounted to \$196 million and were 70% of total loans.

ALLOWANCE FOR LOAN LOSSES

At December 31, 2000, the allowance for loan losses was \$3.0 million, a 7% increase from the end of 1999. The ratio of the allowance to total loans was 1.09% at December 31, 2000 and 1999. The ratio of net loan losses to average loans outstanding for 2000 was 0.09% compared to 0.07% for 1999. The ratio of non-accrual loans, restructured loans, and loans delinquent more than 90 days to total loans increased to 0.91% at December 31, 2000 from .54% at the end of 1999. The ratio of real estate secured loans to total loans increased to 87% at the end of 2000 from 85% at the end of 1999.

An allowance for loan losses is maintained sufficient to absorb losses in the existing loan portfolio. The allowance is a function of specific loan allowances, general loan allowances based on historical loan loss experience and current trends, and allowances based on general economic conditions that affect the collectibility of the loan portfolio. These can include, but are not limited to exposure to an industry experiencing problems, changes in the nature or volume of the portfolio and delinquency and nonaccrual trends. The portfolio review and calculation of the allowance is performed by management on a continuing basis.

All loan reserves are subject to regulatory examinations and determination as to the appropriateness of the methodology and adequacy on an annual basis.

The specific allowance is based on regular analysis of the loan portfolio and is determined by analysis of collateral value, cash flow and guarantor capacity, as applicable. The specific allowance was \$1,007,408 and \$721,717 as of December 31, 2000 and 1999, respectively.

The general allowance is calculated using internal loan grading results and appropriate allowance factors on approximately 10 classes of loans. This process is reviewed on a regular basis. The allowance factors may be revised whenever necessary to address current credit quality trends or risks associated with particular loan types. Historic trend analysis is utilized to obtain the factors to be applied. The general allowance was \$1,222,709 and \$976,158 as of December 31, 2000 and 1999, respectively.

Allocation of a portion of the allowance does not preclude its availability to absorb losses in other categories. An unallocated reserve is maintained to recognize the imprecision in estimating and measuring loss when evaluating the allowance for individual loans or pools of loans. The unallocated portion of allowance was lower at December 31, 2000, than it was at December 31, 1999. This was due to an increase in the ratio of non-accrual loans, restructured loans, and loans delinquent more than 90 days from December 31, 1999 to December 31, 2000. As that ratio increased, the unallocated portion of the allowance decreased.

During the years ended December 31, 1996 through 2000, the unallocated portion of the allowance for loan losses has fluctuated with the specific and general allowances so that the total allowance for loan losses would be at a level that management believes is the best estimate of possible future credit losses at the balance sheet date. The specific allowance may fluctuate from period to period if the balance of what management considers problem loans changes. The general allowance will fluctuate with changes in the mix of the Company's loan portfolio, economic conditions, or specific industry conditions. The requirements of the Company's federal regulators, or infrequent situations such as potential effects of the Year 2000 conversion on its borrowers, are considerations in determining the required total allowance.

The lower level of loan charge-offs in 2000 and 1999 compared to 1998, was due to two commercial loans that the Company charged-off in 1998 totaling approximately \$328,000.

Management believes that it has adequately assessed the risk of loss in the loan portfolios based on a subjective evaluation and has provided an allowance which is appropriate based on that

assessment. Because the allowance is an estimate based on current conditions, any change in the economic conditions of the Company's market area or change within a borrower's business could result in a revised evaluation which could alter the Company's earnings.

FUNDING SOURCES

Total deposits at December 31, 2000 increased by \$29.6 million to \$292.0 million from the end of 1999. Interest-bearing accounts increased by \$33.6 million and non-interest bearing deposits decreased by \$4.0 million. Overall deposit growth is attributed primarily to new account relationships within the existing market area.

Due to significant growth in deposits, as noted above, accompanied by security sales, other borrowings were reduced. Advances from the Federal Home Loan Bank decreased to \$50 million at the end of 2000 compared to \$66 million at the end of 1999. Borrowings for federal funds purchased, securities sold under agreements to repurchase and notes payable to the US Treasury decreased by \$2.1 million from December 31, 1999 to 2000.

CAPITAL

At December 31, 2000, shareholders' equity was \$30.5 million, an increase of \$0.6 million from 1999. The increase in stockholders' equity was largely due to the fair market value adjustment of the investment portfolio as required by Statement No. 115 of the Financial Accounting Standards Board. The Company paid shareholders dividends totaling \$971,347, and net income for 2000 was \$1.7 million. In addition, the Company purchased and retired common stock for \$1.0 million in 2000. The company declared a 2 for 1 stock split in 1999 and restructured the par value of the stock from \$10 to \$1. Stockholders' equity amounted to 7.86% of total assets at December 31, 2000 compared to 7.96% at the end of 1999. The decrease in this ratio was caused by asset growth, but remains at a very strong level.

Bank holding companies and banks are required by the Federal Reserve and FDIC to maintain minimum levels of Tier 1 (or Core) and Tier 2 capital measured as a percentage of assets on a risk-weighted basis. Capital is primarily represented by shareholders' equity, adjusted for the allowance for loan losses and certain issues of preferred stock, convertible securities, and subordinated debt, depending on the capital level being measured. Assets and certain off-balance sheet transactions are assigned to one of five different risk-weighting factors for purposes of determining the risk-adjusted asset base. The minimum levels of Tier 1 and Tier 2 capital to risk-adjusted assets are 4% and 8%, respectively, under the regulations.

In addition, the Federal Reserve and the FDIC require that bank holding companies and banks maintain a minimum level of Tier 1 (or Core) capital to average total assets excluding intangibles for the current quarter. This measure is known as the leverage ratio. The current regulatory minimum for the leverage ratio for institutions to be considered adequately capitalized is 4%, but could be required to be maintained at a higher level based on the regulator's assessment of an institution's risk profile. The following chart shows the regulatory capital levels for the Company and Bank at December 31, 2000 and 1999. The Company's subsidiary bank also exceeded the FDIC required minimum capital levels at those dates by a substantial margin. Based on the levels of capital, the Company and the Bank are well capitalized.

At December 31

RATIO	MINIMUM	CARROLLTON BANCORP		CARROLLTON BANK	
		2000	1999	2000	1999
Leverage Ratio	4%	7.8%	7.3%	7.4%	7.0%
Risk-based Capital:					
Tier 1 (Core)	4%	11.0%	11.0%	9.7%	10.6%
Tier 2 (Total)	8%	12.2%	12.4%	10.8%	11.7%

LIQUIDITY

Liquidity management ensures that funds are available when required to meet deposit withdrawals, loan commitments, and operating expenses. These funds are supplied by deposits, loan repayments, security maturities and can be raised by liquidating assets or through additional borrowings. Securities classified as available for sale can be liquidated or pledged to secure borrowed funds to provide necessary liquidity. In addition, the Company has unsecured lines of credit outstanding under which it could borrow \$4 million, and has borrowing capacity with the Federal Home Loan Bank of \$61 million which is collateralized by a blanket security interest in the Company's residential first mortgage loans.

At December 31, 2000, the Company had outstanding loan commitments and unused lines of credit totaling \$95.6 million. Of this total, management places a high probability for funding within 1 year on approximately \$23.0 million. The remaining amount is mainly unused home equity lines of credit on which management places a low probability for required funding.

INTEREST RATE RISK

The level of income of a financial institution can be affected by the repricing characteristics of its assets and liabilities due to changes in interest rates. This is referred to as interest rate risk. Financial institutions allocate significant time and resources to managing interest rate risk because of the impact that interest rate changes can have on the net interest margin and earnings. Management continues to seek reasonable ways to reduce its

exposure to interest rate shifts. A static gap analysis is used by the Company as one tool to monitor interest rate risk. A static gap analysis measures the difference, or the "gap", between the amount of assets and liabilities repricing within a given time period. The Company also performs rate shock analyses which estimate changes in the net interest margin for parallel rising and falling interest rate environments. Management also calculates and monitors other ratios on a monthly basis that provide additional information relating to certain aspects of asset/liability management. This information, together with information about forecasted future interest rate trends, is used to manage the Company's asset and liability positions. Management uses this information as a factor in decisions made about maturities for investment of cash flows, classification of investment securities purchases as available for sale or held to maturity, emphasis of variable rate or fixed rate loans and short or longer term deposit products in marketing campaigns, and deposit account pricing to alter asset and liability repricing characteristics.

At December 31, 2000, the Company was in a liability sensitive position amounting to 5.0% of assets within a one year time horizon. This is within the targets as established by the Asset/Liability Management Policy approved by the Board of Directors. Although the Company was at a negative asset/liability position at December 31, 2000, the Company can experience significant volatility in its asset/liability position by virtue of its funding of

longer term mortgage loans with relatively short repricing borrowings while it works to sell the loans. Management continues to work to structure borrowing terms that more closely match asset repricing characteristics, keeping in mind the overall balance sheet strategy of the Company. Theoretically, a liability sensitive position is preferable in a falling interest rate climate since more liabilities will reprice downward as interest rates fall than will assets, and an asset sensitive position is preferable in a rising rate environment.

The following chart shows the static gap position for interest sensitive assets and liabilities of the Company as of December 31, 2000. The chart is as of a point in time, and reflects only the contractual terms of the loan or deposit accounts in assigning assets and liabilities to the various repricing periods except that deposit accounts with no contractual maturity, such as money market, NOW and savings accounts, have been allocated evenly over a five year period. In addition, the maturities of investments shown in the gap table will differ from contractual maturities due to anticipated calls of certain securities based on current interest rates. While this chart indicates the opportunity to reprice assets and liabilities within certain time frames, it does not reflect the fact that interest rate changes occur in disproportionate increments for various assets and liabilities.

Period from December 31, 2000 in which assets and liabilities reprice

	<i>0 to 90 days</i>	<i>91 to 365 days</i>	<i>1 to 2 years</i>	<i>2 to 5 years</i>	<i>> 5 year</i>
ASSETS:					
Short term investments	\$309	\$—	\$—	\$—	\$—
Securities	13,540	713	4,450	25,377	29,302
Loans	72,765	24,820	13,714	48,379	118,342
	<u>86,614</u>	<u>25,533</u>	<u>18,164</u>	<u>73,756</u>	<u>147,644</u>
LIABILITIES:					
Deposits	27,299	85,816	39,878	139,000	28
Borrowings	18,357	—	—	45,000	—
	<u>45,656</u>	<u>85,816</u>	<u>39,878</u>	<u>184,000</u>	<u>28</u>
Gap position:					
Period	40,958	(60,283)	(21,714)	(110,244)	147,616
% of Assets	10.6%	(15.5)%	(5.6)%	(28.4)%	38.1%
Cumulative	40,958	(19,325)	(41,039)	(151,283)	(3,667)
% of Assets	10.6%	(5.0)%	(10.6)%	(39.0)%	(0.9)%
Cumulative risk sensitive assets to risk sensitive liabilities	1.90	0.85	0.76	0.57	0.99

New Accounting Pronouncements

The Financial Accounting Standards Board issued three standards and one interpretation during 2000. FASB Statement No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of*

the Effective Date of FASB Statement No. 133, is an amendment of FASB Statement No. 133. FASB Statement No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, is also an amendment of FASB Statement No. 133. Both were

effective in the first quarter of the fiscal year beginning after June 15, 2000. The Company does not own or trade derivative instruments. The Company does not transact in hedging activities.

FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, is a replacement of FASB Statement No. 125. It is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Statement is intended to develop standards to aid in resolving existing financial accounting and reporting issues when transfers of financial assets occur. The Company complies with the provisions of the Statement.

FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, clarifies the application of APB Opinion No. 25. Among other items, the Statement clarifies that in issues involving stock compensation awards, a director of an organization is treated in a similar manner to an employee. It was effective July 1, 2000. The Company complies with the provisions of the interpretation.

Management does not expect these statements to have any material effect on the Company's financial position or results of operations.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**Report of Independent Auditors**

To the Board of Directors and Shareholders
Carrollton Bancorp and Subsidiary
Baltimore, Maryland

We have audited the accompanying consolidated balance sheets of Carrollton Bancorp and Subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the three years ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Carrollton Bancorp and Subsidiary as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the three years ended December 31, 2001, in conformity with accounting principals generally accepted in the United States of America.

Rowles & Company, LLP

/s/ ROWLES & COMPANY, LLP

Baltimore, Maryland
February 26, 2002

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31	
	2001	2000
ASSETS		
Cash and due from bank	\$19,276,101	\$26,249,660
Federal funds sold	1,380,865	309,168
Investment securities:		
Available for sale	107,687,169	73,332,186
Held to maturity	25,000	50,000
Loans held for sale	361,034	1,652,863
Loans, less allowance for loan losses of \$3,338,807 and \$3,024,290	216,839,176	273,342,745
Premises and equipment	7,121,828	7,888,541
Accrued interest receivable	2,240,990	2,602,151
Deferred income taxes	—	316,436
Other assets	2,262,777	2,202,820
	<u>\$357,194,940</u>	<u>\$387,946,570</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	\$39,986,174	\$37,953,473
Interest-bearing	225,542,546	254,070,668
Total deposits	<u>265,528,720</u>	<u>292,024,141</u>
Federal funds purchased and securities sold under agreement to repurchase	11,232,829	12,372,519
Advances from the Federal Home Loan Bank	45,000,000	50,000,000
Notes payable — U.S. Treasury	657,726	984,859
Accrued interest payable	550,753	698,270
Deferred income taxes	335,855	—
Accrued income taxes	280,785	83,392
Other liabilities	959,968	1,301,385
	<u>324,546,636</u>	<u>357,464,566</u>
Shareholders' equity		
Common stock, par \$1.00 per share; authorized 10,000,000 shares; issued and outstanding 2,701,254 in 2001 and 2,707,733 in 2000.	2,701,254	2,707,733
Surplus	17,017,446	17,090,011
Retained earnings	11,680,425	10,722,132
Accumulated other comprehensive income	1,249,179	(37,872)
	<u>32,648,304</u>	<u>30,482,004</u>
	<u>\$357,194,940</u>	<u>\$387,946,570</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31

	2001	2000	1999
INTEREST INCOME			
Interest and fees on loans	\$18,183,405	\$22,161,116	\$17,909,278
Interest and dividends on securities:			
Taxable interest income	4,591,732	3,061,959	2,695,068
Nontaxable interest income	268,330	589,515	1,246,279
Dividends	128,333	144,729	119,588
Interest on federal funds sold and other interest income	660,824	768,729	285,683
Total interest income	<u>23,832,624</u>	<u>26,726,048</u>	<u>22,255,896</u>
Interest expense			
Deposits	9,345,738	11,457,037	7,984,401
Borrowings	3,526,617	4,464,647	2,969,248
Total interest expense	<u>12,872,355</u>	<u>15,921,684</u>	<u>10,953,649</u>
Net interest income	10,960,269	10,804,364	11,302,247
Provision for loan losses	550,000	448,000	597,840
Net interest income after provision for loan losses	<u>10,410,269</u>	<u>10,356,364</u>	<u>10,704,407</u>
Noninterest income			
Service charges on deposit accounts	1,145,622	1,201,836	1,331,611
Brokerage commissions	1,015,720	1,273,855	1,013,251
Other fees and commissions	5,252,236	5,162,891	6,522,446
Gain on sale of merchant services unit	—	—	1,554,526
Gains (losses) on security sales	(2,725)	256,252	239,669
Gains (losses) on loan sales	(254,409)	18,212	249,940
Total noninterest income	<u>7,156,444</u>	<u>7,913,046</u>	<u>10,911,443</u>
Noninterest expenses			
Salaries	5,272,330	5,658,923	5,579,917
Employee benefits	1,046,493	1,090,372	1,303,254
Occupancy	1,547,189	1,705,230	1,590,417
Furniture and equipment	1,775,507	1,734,149	1,498,386
Other operating expenses	5,175,985	5,756,673	7,892,580
Total noninterest expenses	<u>14,817,504</u>	<u>15,945,347</u>	<u>17,864,554</u>
Income before income taxes	2,749,209	2,324,063	3,751,296
INCOME TAXES	816,132	576,531	905,249
NET INCOME	<u>\$1,933,077</u>	<u>\$1,747,532</u>	<u>\$2,846,047</u>
NET INCOME PER SHARE—BASIC	<u>\$0.71</u>	<u>\$0.64</u>	<u>\$1.01</u>
NET INCOME PER SHARE—DILUTED	<u>\$0.71</u>	<u>\$0.64</u>	<u>\$1.01</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	<i>Common Stock</i>			<i>Retained Earnings</i>	<i>Accumulated Other Comprehensive Income</i>	<i>Comprehensive Income</i>
	<i>Shares</i>	<i>Par Value</i>	<i>Surplus</i>			
BALANCE, DECEMBER 31, 1998	1,414,744	\$14,147,440	\$7,559,137	\$7,964,293	\$1,201,658	
Net Income		—	—	2,846,047	—	\$2,846,047
Changes in net unrealized holding gains (losses) on available for sale securities, net of tax		—	—	—	(2,056,351)	(2,056,351)
Comprehensive Income						<u>\$789,696</u>
Shares acquired and cancelled	(47,334)	(101,406)	(811,848)	—	—	
Stock split in the form of a 100% stock dividend	1,409,494	14,094,940	(14,094,940)	—	—	
Change Par Value from \$10 to \$1		(25,364,070)	25,364,070	—	—	
Cash dividends, \$0.3075		—	—	(864,393)	—	
BALANCE, DECEMBER 31, 1999	2,776,904	2,776,904	18,016,419	9,945,947	(854,693)	
Net Income		—	—	1,747,532	—	\$1,747,532
Changes in net unrealized holding gains (loses) on available for sale securities, net of tax		—	—	—	816,821	816,821
Comprehensive Income						<u>\$2,564,353</u>
Shares acquired and cancelled	(69,171)	(69,171)	(926,408)	—	—	
Cash dividends, \$0.355		—	—	(971,347)	—	
BALANCE, DECEMBER 31, 2000	2,707,733	2,707,733	17,090,011	10,722,132	(37,872)	
Net Income		—	—	1,933,077	—	\$1,933,077
Changes in net unrealized holding gains (losses) on available for sale securities, net of tax		—	—	—	1,287,051	1,287,051
Comprehensive Income						<u>\$3,220,128</u>
Shares acquired and cancelled	(6,479)	(6,479)	(72,565)	—	—	
Cash dividends, \$0.36		—	—	(974,784)	—	
BALANCE, DECEMBER 31, 2001	<u>2,701,254</u>	<u>\$2,701,254</u>	<u>\$17,017,446</u>	<u>\$11,680,425</u>	<u>\$1,249,179</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Consolidated Statements of Cash Flows

Year Ended December 31,

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received	\$24,351,974	\$26,492,522	\$21,978,252
Fees and commissions received	6,972,424	7,670,305	10,912,726
Interest paid	(13,019,872)	(15,715,142)	(10,697,617)
Cash paid to suppliers and employees	(13,329,307)	(13,810,326)	(17,534,032)
Proceeds from sale of loans held for sale	1,126,288	8,191,350	19,229,922
Origination of loans held for sale, net of principal reduction	165,541	(7,268,079)	(18,043,944)
Income taxes paid	(803,760)	(71,992)	(731,108)
	<u>5,463,288</u>	<u>5,488,638</u>	<u>5,114,199</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities of securities held to maturity	25,000	—	870,000
Proceeds from sales of securities available for sale	3,298,320	22,875,393	14,728,042
Proceeds from maturities of securities available for sale	156,221,001	9,600,000	10,004,025
Purchase of securities available for sale	(191,938,361)	(28,460,972)	(39,170,091)
Loans made, net of principal collected	2,612,239	(13,936,533)	(41,660,723)
Purchase of loans, net of principal collected	17,791,957	(5,243,168)	(8,878,946)
Proceeds from sale of loans	35,294,964	—	—
Purchase of premises and equipment	(668,039)	(884,125)	(2,859,938)
Proceeds of sale of premises and equipment	13,841	—	—
	<u>22,650,922</u>	<u>(16,049,405)</u>	<u>(66,967,631)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in time deposits	(25,043,765)	31,568,708	25,567,546
Net increase (decrease) in other deposits	(1,451,656)	(1,994,432)	(96,706)
Net increase (decrease) in other borrowed funds	(6,466,823)	(18,123,654)	33,249,673
Common stock repurchase and retirement	(79,044)	(995,414)	(913,254)
Dividends paid	(974,784)	(971,512)	(864,393)
	<u>(34,016,072)</u>	<u>9,483,696</u>	<u>56,942,866</u>
Net increase (decrease) in cash and cash equivalents	(5,901,862)	(1,077,071)	(4,910,566)
Cash and cash equivalents at beginning of year	26,558,828	27,635,899	32,546,465
Cash and cash equivalents at end of year	<u>\$20,656,966</u>	<u>\$26,558,828</u>	<u>\$27,635,899</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY			
OPERATING ACTIVITIES			
Net income	\$1,933,077	\$1,747,532	\$2,846,047
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED			
BY OPERATING ACTIVITIES			
Provision for loan losses	550,000	448,000	597,840
Deprecation and amortization	1,598,037	1,260,377	1,238,373
Deferred income taxes	(157,515)	49,634	(13,111)
Amortization of premiums and discounts	158,190	111,443	42,618
(Gains) losses on disposal of securities	2,725	(256,252)	(239,669)
Loans held for sale made, net of principal sold	1,291,829	923,271	1,185,978
(Gains) losses on sale of loans	254,409	(18,212)	(249,940)
Loss on sale and write-down of premises and equipment	25,307	274,172	—
(Increase) decrease in:			
Accrued interest receivable	361,161	(221,143)	(320,262)
Prepaid income taxes	—	525,627	—
Other assets	(262,391)	364,869	92,255
Increase (decrease) in:			
Accrued interest payable	(147,517)	206,542	256,032
Income taxes payable	197,393	83,392	(338,182)
Other liabilities	(341,417)	(10,614)	16,220
	<u>\$5,463,288</u>	<u>\$5,488,638</u>	<u>\$5,114,199</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting and reporting policies reflected in the financial statements conform to generally accepted accounting principles and to general practices within the banking industry. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of commitments and contingent liabilities at the date of the financial statements and revenues and expenses during the year. Actual results could differ from those estimates.

Business - The Company provides commercial banking and brokerage services to businesses and individuals in Baltimore and surrounding areas of central Maryland, and also makes residential mortgage loans in Virginia, Pennsylvania and Delaware.

Principles Of Consolidation - The consolidated financial statements include the accounts of Carrollton Bancorp (the Company) and its subsidiary Carrollton Bank (the Bank). Intercompany balances and transactions have been eliminated.

The Parent Only financial statements of the Company account for the Bank using the equity method of accounting.

Cash Equivalents - For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Investment Securities - Investment securities in the portfolio are classified as either available for sale or held to maturity. The Company does not currently conduct short term purchase and sale transactions of investment securities which would be classified as trading securities.

The Company classifies investments as available for sale based principally on the Company's asset/liability position and potential liquidity needs. These securities are available for sale in response to changes in market interest rates or in the event the Company needs funds to meet loan demand or deposit withdrawals. Securities classified as available for sale are carried at market value. The unrealized holding gain or loss, net of taxes, related to securities classified as available for sale is reflected as a component of shareholders' equity. Gains or losses on securities sales are determined by the specific-identification method.

The remaining securities in the investment portfolio are classified as held to maturity. These securities are carried at amortized cost. The Company has the ability and the intent to hold these securities to maturity.

Loans Held for Sale - Loans held for sale are carried at the lower of aggregate cost or market value. Market value is determined based on outstanding investor commitments or, in the absence of such commitments, based on current investor yield requirements. Gains and losses on loan sales are determined using the specific-identification method. **Loans and Allowance For Loan Losses** - Loans are stated at face value, plus deferred origination costs, less unearned discount, deferred origination fees, and the allowance for loan losses. Interest on loans is credited to income based on the principal amounts outstanding. Origination fees and costs are deferred and amortized to income over the estimated terms of the loans. Accrual of interest is discontinued generally when the collection of principal or interest reaches 90 days past due, or earlier if collection becomes uncertain based upon the financial weakness of the borrower or the realizable value of the collateral. Management may grant a waiver from nonaccrual status for a 90 day past due loan that is well secured or in the process of collection. Nonaccrual loans are returned to accrual status when all past due principal and interest has been collected, and the remainder of the loan is judged to be fully collectible. Loans are considered impaired when, based on current information, management considers it unlikely that the collection of principal and interest payments will be made according to contractual terms. Generally, loans are not reviewed for impairment until the accrual of interest has been discontinued. If collection of principal is evaluated as doubtful, all payments are applied to principal.

In accordance with Statement of Financial Accounting Standards No. 114 "Accounting by Creditors for Impairment of a Loan" (SFAS No. 114), the Company measures impaired loans (1) at the observable market price; (2) at the present value of expected cash flows discounted at the loan's effective interest rate; or (3) at the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, an impairment is recognized through a valuation allowance and corresponding provision for loan losses.

The allowance for loan losses represents an estimate which, in management's judgment, will be adequate to absorb probable losses on existing loans and other extensions of credit that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrowers' ability to pay, overall portfolio quality, and review of specific problem areas. Actual loan performance may differ from estimates used by management.

Premises and Equipment - Premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are computed over the estimated useful lives using the straight-line method. Leasehold improvements are amortized over the terms of

the leases or the estimated useful lives of the improvements, whichever is shorter. Accumulated depreciation includes provisions for declines in the value of land and buildings.

Intangible Assets - The premium paid for deposits acquired is being amortized to expense on the straight line basis over 15 years. The Company capitalizes the value of loan servicing retained on loan sales, and amortizes the value over the estimated life of the portfolio of loans serviced. The amortization period is adjusted quarterly for changes in the prepayment speed of the loans serviced. Intangible assets are included in other assets on the Consolidated Balance Sheets.

Income Taxes - The provision for income taxes includes taxes payable for the current year and deferred income taxes. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets may also include tax credit carryovers that the Company expects to offset against future tax obligations.

Per Share Data - Basic net income per common share is determined by dividing net income by the weighted average shares of common stock outstanding giving retroactive effect to any stock dividends

and splits declared. Diluted earnings per share is determined by adjusting average shares of common stock outstanding by the potentially dilutive effects of stock options outstanding. The dilutive effects of stock options are computed using the "treasury stock" method.

Comprehensive Income - The Company adopted Statement No. 130 of the Financial Accounting Standards Board, Reporting Comprehensive Income, in 1998. Comprehensive income includes net income and the unrealized gain (loss) on investment securities available for sale, net of income taxes. 2. Restrictions on Cash and Due from Banks

2. RESTRICTIONS ON CASH AND DUE FROM BANKS

Banks are required to carry cash reserves with the Federal Reserve Bank or maintain cash on hand of specified percentages of deposit balances. The Bank's normal amount of cash on hand, which averaged \$13.7 million and \$14.8 million during 2001 and 2000 respectively, is sufficient to satisfy the reserve requirements.

In order to cover the costs of services provided by correspondent banks, the Company maintains compensating balances at these correspondent banks, or pays fees in the event the credit earned on balances is not sufficient to cover activity charges. During 2001 and 2000, the Company maintained average compensating balances of approximately \$1,000,000 which was maintained at the Federal Reserve Bank. In addition, the Company paid \$63,423, \$50,058, and \$63,667, respectively, in bank account charges in 2001, 2000, and 1999.

3. INVESTMENT SECURITIES

Investment securities are summarized as follows:

	<i>Amortized cost</i>	<i>Unrealized gains</i>	<i>Unrealized losses</i>	<i>Market value</i>
December 31, 2001				
AVAILABLE FOR SALE				
U.S. Government agency	\$64,711,849	\$549,052	\$18,645	\$65,242,256
Mortgage backed securities	19,758,761	256,125	40,137	19,974,749
State and municipal	5,891,946	16,571	49,423	5,859,094
Corporate bonds	7,739,978	167,823	5,521	7,902,280
Federal Home Loan Bank stock	3,250,000	—	—	3,250,000
Equity securities	4,299,478	1,264,180	104,868	5,458,790
	<u>\$105,652,012</u>	<u>\$2,253,751</u>	<u>\$218,594</u>	<u>\$107,687,169</u>
Held to Maturity				
Foreign Bonds	<u>\$25,000</u>	<u>\$—</u>	<u>\$—</u>	<u>\$25,000</u>

	<i>Amortized cost</i>	<i>Unrealized gains</i>	<i>Unrealized losses</i>	<i>Market value</i>
December 31, 2000				
AVAILABLE FOR SALE				
U.S. Treasury	\$799,959	\$416	\$625	\$799,750
U.S. Government agency	55,414,430	13,035	439,980	54,987,485
Mortgage backed securities	5,242,307	76,835	10,885	5,308,257
State and municipal	6,206,170	5,129	83,475	6,127,824
Federal Home Loan Bank stock	3,250,000	—	—	3,250,000
Equity securities	2,481,021	553,509	175,660	2,858,870
	<u>\$73,393,887</u>	<u>\$648,924</u>	<u>\$710,625</u>	<u>\$73,332,186</u>
Held to Maturity				
Foreign Bonds	<u>\$50,000</u>	<u>\$—</u>	<u>\$—</u>	<u>\$50,000</u>

Contractual maturities of debt securities at December 31, 2001 and 2000 are shown below. Actual maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

December 31, 2001

<i>Maturing</i>	<i>Available for sale</i>		<i>Held to maturity</i>	
	<i>Amortized cost</i>	<i>Market value</i>	<i>Amortized cost</i>	<i>Market value</i>
Within one year	\$16,254,817	\$16,275,679	\$—	\$—
Over one to five years	55,254,938	55,919,594	25,000	25,000
Over five to ten years	3,080,899	3,099,590	—	—
Over ten years	3,753,119	3,708,767	—	—
Mortgage backed securities	19,758,761	19,974,749	—	—
	<u>\$98,102,534</u>	<u>\$98,978,379</u>	<u>\$25,000</u>	<u>\$25,000</u>

December 31, 2000

<i>Maturing</i>	<i>Available for sale</i>		<i>Held to maturity</i>	
	<i>Amortized Cost</i>	<i>Market Value</i>	<i>Amortized Cost</i>	<i>Market Value</i>
Within one year	\$9,748,598	\$9,750,853	\$25,000	\$25,000
Over one to five years	27,143,351	27,001,153	25,000	25,000
Over five to ten years	21,753,777	21,458,136	—	—
Over ten years	3,774,833	3,704,917	—	—
Mortgage backed securities	5,242,307	5,308,257	—	—
	<u>\$67,662,866</u>	<u>\$67,223,316</u>	<u>\$50,000</u>	<u>\$50,000</u>

At December 31, 2001 and 2000, securities with a cost basis of \$34,268,569 (market value of \$34,760,967), and \$20,415,830 (market value of \$20,175,840) were pledged as collateral for government deposits, securities sold under repurchase agreements, and advances from the Federal Home Loan Bank.

In 2001, 2000, and 1999, the Company realized gains on sales of securities of \$0, \$491,480, and \$478,820, respectively, and losses of \$2,725, \$235,228, and \$239,151. Income taxes on net security gains were (\$1,052) \$99,356, and \$92,560 in 2001, 2000, and 1999, respectively.

4. LOANS

Major classifications of loans are as follows:

	<i>2001</i>	<i>2000</i>
Real estate		
Residential	\$117,617,158	\$188,658,857
Commercial	52,675,033	45,963,998
Construction and land development	10,116,583	4,958,938
Demand and time	33,982,346	28,981,256
Lease financing	1,328,828	2,242,679
Installment and credit card	4,458,035	5,561,307
	<u>220,177,983</u>	<u>276,367,035</u>
Allowance for loan losses	3,338,807	3,024,290
Loans, net	<u>\$216,839,176</u>	<u>\$273,342,745</u>

The Bank makes loans to customers located in Maryland, Virginia, Pennsylvania and Delaware. Although the loan portfolio is diversified, its performance will be influenced by the regional economy.

The maturity and rate repricing distribution of the loan portfolio is as follows:

Repricing or maturing within one year	\$88,783,498	\$86,207,845
Maturing over one to five years	52,341,290	38,949,836
Maturing over five years	79,053,195	151,209,354
	<u>\$220,177,983</u>	<u>\$276,367,035</u>

Loan balances have been adjusted by the following deferred amounts:

Deferred origination costs and premiums	\$1,035,380	\$2,840,701
Deferred origination fees and unearned discounts	(701,625)	(942,771)
Net deferred costs	<u>\$333,755</u>	<u>\$1,897,930</u>

Transactions in the allowance for loan losses were as follows:

	<i>2001</i>	<i>2000</i>	<i>1999</i>
Beginning balance	\$3,024,290	\$2,836,291	\$2,387,732
Provision charged to operations	550,000	448,000	597,840
Recoveries	66,658	124,398	153,544
	<u>3,640,948</u>	<u>3,408,689</u>	<u>3,139,116</u>
Loans charged off	302,141	384,399	302,825
Ending balance	<u>\$3,338,807</u>	<u>\$3,024,290</u>	<u>\$2,836,291</u>

At December 31, 2001, 2000, and 1999, the accrual of interest has been discontinued on loans of \$387,037, \$622,392, and \$240,569, respectively. The amount of interest income that would have been recorded in 2001, 2000, and 1999 on non-accrual loans if those loans had been handled in accordance with their contractual terms totaled \$16,109, \$28,689, and \$12,880, respectively. The amount of interest income actually recorded on non-accrual loans totaled \$1,239, \$3,892, and \$5,549 for 2001, 2000, and 1999, respectively.

At December 31, 2001, 2000, and 1999, the Company had one impaired loan to the same borrower amounting to \$598,644, \$633,302, and \$330,987, respectively that was classified as impaired because it had been restructured to accept interest only payments for a period of time. The average balance of impaired loans amounted to \$616,358, \$342,416, and \$369,776, in 2001, 2000, and 1999, respectively. During 2001, 2000, and 1999, the Company received total payments on impaired loans of \$99,868, \$42,153, and \$100,837, respectively. Of these amounts, \$65,210, \$27,817, and \$23,259, were recorded as interest income for 2001, 2000, and 1999, respectively. The remainder was applied to reduce principal.

This loan is the Company's only restructured loan. During the year-ended December 31, 2000 the Bank repurchased, at a discount, a portion of this loan that had been sold to another financial institution. The discount will be accreted over the remaining life of the loan. There is not a specific allowance for this loan since the fair value of the collateral securing the loan is considered adequate to cover all principal and interest due. The Company also continues to accrue interest on this loan due to the adequacy of the collateral

value.

Amounts past due 90 days or more, excluding restructured and nonaccrual loans are as follows:

	2001	2000	1999
Mortgage	\$108,596	\$434,346	\$306,394
Demand and time	114,863	847,360	530,804
Installment and credit card	—	—	—
	<u>\$223,459</u>	<u>\$1,281,706</u>	<u>\$837,198</u>

The Company continues to accrue interest on these loans since the fair value of the collateral is considered adequate to assure collection of all principal and interest amounts due and the loan is in the process of collection. Loans with a balance of \$33,527,799 and \$81,961,376 were pledged as collateral to the Federal Home Loan Bank of Atlanta as of December 31, 2001 and 2000, respectively.

5. CREDIT COMMITMENTS

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

	2001	2000	1999
LOAN COMMITMENTS			
Mortgage loans	\$—	\$254,467	\$17,367,687
Construction and land development	10,275,089	7,882,392	598,572
Commercial loans	17,608,000	8,620,000	1,390,000
Installment loans	579,682	92,376	10,100
	<u>\$28,462,771</u>	<u>\$16,849,235</u>	<u>\$19,366,359</u>
UNUSED LINES OF CREDIT			
Home equity lines	\$54,798,129	\$56,579,164	\$58,693,062
Commercial lines	10,057,019	12,038,420	12,503,963
Unsecured consumer lines	525,714	2,170,715	1,613,248
	<u>\$65,380,862</u>	<u>\$70,788,299</u>	<u>\$72,810,273</u>
LETTERS OF CREDIT	<u>\$2,871,588</u>	<u>\$1,392,352</u>	<u>\$1,488,000</u>

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have interest rates fixed at current market amounts, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

The Company's exposure to credit loss in the event of nonperformance by the borrower is the contract amount of the commitment. Loan commitments, lines of credit, and letters of credit are made

on the same terms, including collateral, as outstanding loans. The Company is not aware of any accounting loss it would incur by funding the above commitments.

6. RELATED PARTY TRANSACTIONS

The Company's executive officers and directors, or other entities to which they are related, enter into loan transactions with the Bank in the ordinary course of business. The terms of these transactions are similar to the terms provided to other borrowers entering into similar loan transactions and do not involve more than normal risk of collectibility. During the years ended December 31, 2001, 2000 and 1999, transactions in related party loans were as follows:

	2001	2000	1999
Beginning balance	\$1,915,984	\$2,031,292	\$2,533,672
Additions	664,183	197,290	859,354
Repayments	(179,367)	(312,598)	(241,861)

Changes in executive officers and directors	2,863,586	—	(562,033)
Adjustment to treat loans guaranteed by multiple directors as a single indebtedness	—	—	(557,840)
	<u>\$5,264,386</u>	<u>\$1,915,984</u>	<u>\$2,031,292</u>

A director of the Company is a partner in a law firm that provides legal services to the Company and its subsidiary. During the years ended December 31, 2001, 2000, and 1999, amounts paid to the law firm in connection with those services were \$173,737, \$166,522, and \$146,250, respectively.

A director of the Company is President of an insurance brokerage through which the Company and its subsidiary place various insurance policies. During the years ended December 31, 2001, 2000, and 1999, amounts paid to the insurance brokerage for insurance premiums were \$249,889, \$57,656, and \$110,528, respectively.

A first year director of the Company is the Executive Vice President for a commercial real estate services company, through which the Company and its subsidiaries contracted for appraisal and management services amounting to \$5,021 in 2001.

7. PREMISES AND EQUIPMENT

A summary of premises and equipment is as follows:

	<i>2001</i>	<i>2000</i>
Land and improvements	\$864,474	\$864,474
Buildings	3,428,461	3,418,861
Leasehold improvements	2,209,352	2,867,347
Equipment and fixtures	10,133,419	10,416,975
	<u>16,635,706</u>	<u>17,567,657</u>
Accumulated depreciation and amortization	9,513,878	9,679,116
	<u>\$7,121,828</u>	<u>\$7,888,541</u>

Depreciation and amortization of premises and equipment was \$1,365,767, \$1,136,243, and \$1,128,263, for 2001, 2000, and 1999, respectively. Amortization of intangible assets, excluding amortization of deposit premiums, was \$109,090, \$124,134, and \$110,110 for 2001, 2000, and 1999, respectively. The Company decreased the depreciable life of ATM machines in May 2001, based on its evaluation of the useful lives of the machines. This change increased depreciation expense that would

have been recorded in 2001 on ATM machines by \$261,000.

During the year-ended December 31, 2000, the Company reduced the book value of its Baltimore Street branch to its estimated fair value of \$140,000. The write-down of \$189,745 is included in occupancy expense on the Consolidated Statements of Income. The fair value of the property represents the amount of a recent offer for the property.

8. DEPOSITS

Major classifications of interest-bearing deposits are as follows:

	<i>2001</i>	<i>2000</i>
NOW and SuperNOW	\$41,444,543	\$36,235,651
Money market	38,884,811	48,074,964
Savings	43,457,591	42,961,679
Certificates of deposit of \$100,000 or more	23,429,810	34,142,844
Other time deposits	78,325,791	92,655,530
	<u>\$225,542,546</u>	<u>\$254,070,668</u>

Certificates of deposit of \$100,000 or more mature as follows:

Three months or less	\$6,887,393	\$7,415,536
Over three through twelve months	2,016,441	11,457,285
Over one to five years	14,525,976	15,270,023
	<u>\$23,429,810</u>	<u>\$34,142,844</u>

Interest expense associated with certificates of deposit of \$100,000 or more was \$1,910,347, \$1,756,939, and \$795,285, for the years ended December 31, 2001, 2000, and 1999, respectively.

Other time deposits mature as follows:

	<i>2001</i>	<i>2000</i>
Maturing within one year	\$49,600,440	\$63,459,805
Maturing over one to five years	28,697,507	29,167,881
Maturing over five years	27,844	27,844
	<u>\$78,325,791</u>	<u>\$92,655,530</u>

9. BRANCH ACQUISITION

On June 23, 1995, the Company acquired a branch office from First Union National Bank of Maryland. This branch had total deposits at the date of acquisition of \$22,765,077. The Company also acquired related real estate and equipment of \$530,000 and loans of \$17,303. The deposit premium of \$1,847,663 is being amortized using the straight line method over 15 years. Amortization expense was \$123,180 for 2001, 2000, and 1999, respectively. The remaining unamortized balance at December 31, 2001 and 2000 was \$1,046,993 and \$1,170,173, respectively. This amount is included in other assets in the Consolidated Balance Sheets.

10. BORROWINGS

Federal funds purchased and securities sold under agreements to repurchase represent transactions with customers for correspondent or commercial account cash management services, and borrowings by the Company under lines of credit with other institutions. The transactions with customers are overnight borrowing arrangements with interest rates discounted from the federal funds sold rate. Securities underlying the customer repurchase agreements are maintained in the Company's control. Additional information is as follows:

	<i>2001</i>	<i>2000</i>	<i>1999</i>
Total outstanding at period end	\$11,232,829	\$12,372,519	\$13,650,176
Average amount outstanding during period	13,058,607	14,943,138	14,584,035
Maximum amount outstanding at any month end	14,765,870	20,116,442	18,912,001
Weighted average interest rate at period end	0.83%	5.47%	4.80%
Weighted average interest rate for the period	2.91%	5.37%	4.42%

Notes payable – U.S. Treasury are Federal Treasury Tax and Loan deposits accepted by the Bank from its customers to be remitted to the Federal Reserve Bank on a periodic basis. The Company pays interest on these deposits at a slight discount to the federal funds sold rate.

Advances from the Federal Home Loan Bank (FHLB) of Atlanta amounted to \$45,000,000 and \$50,000,000 at December 31, 2001 and 2000, respectively. Advances averaged \$46,054,795 and \$56,191,257 for 2001 and 2000, respectively, with weighted average costs of 6.80% for 2001 and 6.45% for 2000. At December 31, 2001, the advances carried a weighted average interest rate of 6.83%, and matured at dates ranging from March 26, 2008 to May 24, 2010. At December 31,

2000, the advances carried a weighted average interest rate of 6.58%, and matured at dates ranging from March 19, 2001 through May 24, 2010. The Bank has a total secured line of \$52 million with the FHLB for which the Bank granted the FHLB a security interest in its residential first mortgage loans, as well as pledged investment securities.

As noted above, the Company borrows under available unsecured federal funds lines of credit of \$4 million with other institutions. The balance outstanding under these lines was \$1,000,000 and \$700,000 at December 31, 2001 and 2000, respectively. These lines bear interest at the then current federal funds rate of the correspondent bank.

11. OTHER OPERATING EXPENSES

Other operating expenses include the following:

	<i>2001</i>	<i>2000</i>	<i>1999</i>
ATM services	\$1,539,670	\$2,039,858	\$2,088,009
Data processing services	725,179	745,849	684,306
Professional services	398,553	374,330	274,178
Telephone	288,710	234,371	247,679
Marketing	190,787	584,446	661,751
Postage and freight	163,929	153,807	180,630
Directors' fees	149,775	124,893	132,025
Printing, stationery, and supplies	147,118	214,406	275,829
Liability insurance	140,230	130,550	90,319
Deposit premium amortization	123,180	123,180	123,180
Software amortization	109,090	124,134	110,110
Merchant credit card services	16,813	22,036	1,465,476
Other	1,182,951	884,813	1,559,088
	<u>\$5,175,985</u>	<u>\$5,756,673</u>	<u>\$7,892,580</u>

12. STOCK OPTIONS

The Company adopted a stock option incentive plan in 1998, which provides for the granting of common stock options to directors and key employees. These stock option awards contain a serial feature whereby one third of the options granted vest and can be exercised after each year. Option prices

are equal to the estimated fair market value of the common stock at the date of the grant. Options expire ten years after the date of grant if not exercised.

Information with respect to options outstanding is as follows for the years ended December 31:

	<i>2001</i>		<i>2000</i>		<i>1999</i>	
	<i>Shares</i>	<i>Option Price Range</i>	<i>Shares</i>	<i>Option Price Range</i>	<i>Shares</i>	<i>Option Price Range</i>
Outstanding at beginning of year	108,699		104,600		70,400	
Granted	46,000	\$10.20 to \$11.49	36,100	\$14.13	59,400	\$16.13 to \$16.25
Exercised	—		—		—	
Expired/Canceled	—		(32,001)	\$14.13 to \$18.68	(25,200)	
Outstanding at end of year	<u>154,699</u>	\$10.20 to \$19.00	<u>108,699</u>	\$14.13 to \$19.00	<u>104,600</u>	\$16.13 to \$19.00
Exercisable at December 31	<u>78,820</u>		<u>47,928</u>		<u>17,067</u>	

The value of each option is estimated on the date of grant using the Black–Scholes option pricing model with the following weighted average assumptions used for grants during the years ended December 31, 2001, 2000 and 1999.

	<i>2001</i>	<i>2000</i>	<i>1999</i>
Dividend yield	3.13% to 3.53%	2.51%	1.97% to 1.98%
Expected volatility	23.52%	30.83%	25.47%
Risk free rate	5.18% to 5.67%	5.76% to 6.35%	5.68 to 6.42%
Expected lives	10 years	10 years	10 years

The Company uses the intrinsic value method to account for stock based compensation plans. Because the option price of stock options granted was equal to the market price of the common stock at the date of grant for all options granted, no compensation expense related to the options was

recognized. If the Company had applied a fair value based method to recognize compensation cost for the options granted, net income and net income per share would have been changed to the following pro forma amounts for the years ended December 31, 2001, 2000, and 1999.

	<i>2001</i>	<i>2000</i>	<i>1999</i>
Net Income:			
As Reported	\$1,933,077	\$1,747,532	\$2,846,047
Pro forma	\$1,878,547	\$1,669,531	\$2,763,829
Basic Earnings Per Share:			
As Reported	\$0.71	\$0.64	\$1.01
Pro forma	\$0.69	\$0.61	\$0.99
Diluted Earnings Per Share:			
As reported	\$0.71	\$0.64	\$1.01
Pro forma	\$0.69	\$0.61	\$0.99

13. NET INCOME PER SHARE

The calculation of net income per common share as restated giving retroactive effect to any stock dividends and splits is as follows for the years ended December 31:

	<i>2001</i>	<i>2000</i>	<i>1999</i>
Basic:			
Net income (applicable to common stock)	\$1,933,077	\$1,747,532	\$2,846,047
Average common shares outstanding	2,707,165	2,736,263	2,817,458
Basic net income per share	\$0.71	\$0.64	\$1.01
Diluted:			
Average common shares outstanding	2,707,165	2,736,263	2,817,458
Stock option adjustment	907	-	-
Average common shares outstanding—diluted	<u>2,708,072</u>	<u>2,736,263</u>	<u>2,817,458</u>
Diluted net income per share	\$0.71	\$0.64	\$1.01

14. COMPREHENSIVE INCOME

Comprehensive income is defined as net income plus transactions and other occurrences which are the result of nonowner changes in equity. For the Company, nonowner equity changes are comprised

of unrealized gains or losses on available for sale securities that will be accumulated with net income in determining comprehensive income. Presented below is a reconciliation of net income to comprehensive income for the years ended December 31:

	<i>2001</i>	<i>2000</i>	<i>1999</i>
Net Income	<u>\$1,933,077</u>	<u>\$1,747,532</u>	<u>\$2,846,047</u>
Other comprehensive income:			
Unrealized holding gains (losses) during the period	2,094,132	1,587,011	(3,110,528)
Less: Adjustment for security (gains) losses	<u>2,725</u>	<u>(256,252)</u>	<u>(239,669)</u>
Other comprehensive income before tax	2,096,857	1,330,759	(3,350,197)
Income taxes on comprehensive income	<u>(809,806)</u>	<u>(513,938)</u>	<u>1,293,846</u>

Other comprehensive income after tax	<u>1,287,051</u>	<u>816,821</u>	<u>(2,056,351)</u>
Comprehensive income	<u>\$3,220,128</u>	<u>\$2,564,353</u>	<u>\$789,696</u>

15. CAPITAL STANDARDS

The Federal Reserve Board and the Federal Deposit Insurance Corporation (FDIC) have adopted risk-based capital standards for banking organizations. These standards require ratios of capital to

assets for minimum capital adequacy and to be classified as well capitalized under prompt corrective action provisions. As of December 31, 2001 and 2000, the capital ratios and minimum capital requirements are as follows.

<i>(in thousands)</i>	<i>Actual</i>		<i>Minimum Capital Adequacy</i>		<i>To be Well Capitalized</i>	
	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>
DECEMBER 31, 2001						
Total Capital (to risk-weighted assets)						
Consolidated	\$35,081,699	14.59%	\$19,231,120	8.0%	\$24,038,900	10.0%
Carrollton Bank	\$30,271,520	12.69%	\$19,087,760	8.0%	\$23,859,700	10.0%
Tier 1 Capital (to risk-weighted assets)						
Consolidated	\$31,773,207	13.22%	\$9,615,560	4.0%	\$14,423,340	6.0%
Carrollton Bank	\$27,281,943	11.43%	\$9,543,880	4.0%	\$14,315,820	6.0%
Tier 1 Capital (to average assets)						
Consolidated	\$31,773,207	8.85%	\$14,359,000	4.0%	\$17,948,750	5.0%
Carrollton Bank	\$27,281,943	7.67%	\$14,219,951	4.0%	\$17,774,939	5.0%
DECEMBER 31, 2000						
Total Capital (to risk-weighted assets)						
Consolidated	\$32,328,465	12.17%	\$21,250,668	8.0%	\$26,563,317	10.0%
Carrollton Bank	\$28,590,100	10.79%	\$21,198,800	8.0%	\$26,498,500	10.0%
Tier 1 Capital (to risk-weighted assets)						
Consolidated	\$29,311,831	11.03%	\$10,625,334	4.0%	\$15,937,990	6.0%
Carrollton Bank	\$25,565,811	9.65%	\$10,599,400	4.0%	\$15,899,100	6.0%
Tier 1 Capital (to average assets)						
Consolidated	\$29,311,831	7.75%	\$15,130,280	4.0%	\$18,912,850	5.0%
Carrollton Bank	\$25,565,811	7.40%	\$13,817,827	4.0%	\$17,519,427	5.0%

Tier 1 capital consists of capital stock, surplus, and retained earnings. Total capital includes a limited amount of the allowance for loan losses. In calculating risk-weighted assets, specified risk percentages are applied to each category of asset and off-balance sheet items.

Failure to meet the capital requirements could affect the Company's ability to pay dividends and accept deposits and may significantly affect the operations of the Company.

As of December 31, 2001, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

16. PENSION PLANS

The Company has a defined benefit pension plan covering substantially all of the employees. Benefits are based on years of service and the employee's highest average rate of earnings for the three consecutive years during the last five full years before retirement. The Company's funding policy is to contribute annually the amount recommended by the

Plan's independent actuarial consultants. Assets of the plan are held in a trust fund managed by an insurance company. Approximately 50% of the trust assets are invested in an immediate participation guarantee fund, and the balance is invested in equity funds.

The following table sets forth the financial status of the plan:

	2001	2000	1999
Change in benefit obligation:			
Benefit obligation at beginning of year	\$6,759,948	\$6,105,017	\$6,215,846
Service cost	387,560	368,350	411,073
Interest cost	473,302	452,403	431,592
Actuarial gain	(103,963)	136,939	(656,826)
Benefits paid	(291,631)	(302,761)	(296,668)
Benefit obligation at end of year	<u>7,225,216</u>	<u>6,759,948</u>	<u>6,105,017</u>
Change in plan assets:			
Fair value of plan assets at beginning of year	\$6,990,732	\$6,666,006	\$5,961,647
Actual return on plan assets	(255,939)	(26,632)	1,001,027
Employer contribution	292,089	654,119	-
Benefits paid	(291,631)	(302,761)	(296,668)
Fair value of plan assets at end of year	<u>6,735,251</u>	<u>6,990,732</u>	<u>6,666,006</u>
Funded status	(489,965)	230,784	560,989
Unrecognized net actuarial loss (gain)	675,944	(106,226)	(915,047)
Unrecognized prior service cost	149,625	200,690	251,755
Unrecognized net transition (asset)	-	-	(6,504)
Prepaid (accrued) benefit cost	<u>\$335,604</u>	<u>\$325,248</u>	<u>(\$108,807)</u>
Assumptions used in measuring the projected benefit obligation were as follows:			
Discount rates	7.25%	7.50%	7.75%
Rates of increase in compensation levels	5.50%	5.50%	5.50%
Long-term rate of return on assets	9.00%	9.00%	9.00%
Net pension expense includes the following components:			
Service cost	\$387,560	\$368,350	\$411,073
Interest cost	473,302	452,403	431,592
Estimated return on assets	(630,194)	(617,835)	(524,129)
Net amortization and deferral	51,065	17,146	4,586
Net pension expense	<u>\$281,733</u>	<u>\$220,064</u>	<u>\$323,122</u>

The Company has a contributory thrift plan qualifying under Section 401(k) of the Internal Revenue Code. Employees with one year of service are eligible for participation in the plan. The Company's contributions to this plan, included in expenses, were \$280,333, \$94,143, and \$83,872 for 2001, 2000 and 1999, respectively.

17. CONTINGENCIES

During 2001, the Company brought legal action against Fujitsu-ICL Systems, Inc. seeking recovery of \$472,480. This represents funds held by a subcontractor of Fujitsu-ICL Systems, Inc. which was the party provider of ATM replenishment services for the Company. While the subcontractor has filed for bankruptcy protection from its creditors, the Company's claim is against Fujitsu-ICL Systems, Inc. The subcontractor provided armoured car services for Fujitsu-ICL Systems, Inc. in connection with the ATM maintenance services Fujitsu-ICL Systems, Inc. offered. Neither the Company, nor its legal counsel, anticipate loss on this matter. Management is also

working with its insurance carrier to assure the maximum protection available to the Company from the exposure. As of December 31, 2001, this amount is classified in Other Assets on the Company's balance sheet.

On March 8, 2002, the United States District Court for the District of Maryland entered a summary judgement in favor of the Bank and against the Defendant Fujitsu-ICL Systems, Inc. in the total amount of \$515,821. This judgement represents a

full award to the Bank of its ATM losses, 9% pre-judgement interest, and court costs claimed in its initial complaint. The judgement entered by the court is a final judgement, but is subject to an appeal by the defendant within a 30-day time period following the entry thereof. Absent reversal of appeal, the Bank's

judgement should be fully collectible as the defendant is highly solvent.

The Company is involved in various other legal actions arising from normal business activities. Management believes that the ultimate liability or risk of loss resulting from these actions will not materially affect the Company's financial position.

18. INCOME TAXES

The components of income tax expense are as follows:

	2001	2000	1999
Current			
Federal	\$908,494	\$488,351	\$801,771
State	65,153	38,546	116,589
	<u>973,647</u>	<u>526,897</u>	<u>918,360</u>
Deferred	(157,515)	49,634	(13,111)
	<u>\$816,132</u>	<u>\$576,531</u>	<u>\$905,249</u>

The components of the deferred tax charge (benefits) were as follows:

Provision for loan losses	\$(121,621)	\$(72,450)	\$(173,234)
Deferred origination costs	(95,921)	(100,027)	208,052
Deferred compensation plan	(9,404)	(11,116)	(9,689)
Depreciation	15,705	141,486	81,732
Discount accretion	(2,951)	(3,917)	(1,539)
Retirement benefits	4,540	167,632	(118,433)
Ground rent losses	-	53,443	-
Write-down of building	-	(73,280)	-
Early retirement benefits	52,137	(52,137)	-
	<u>\$(157,515)</u>	<u>\$49,634</u>	<u>\$(13,111)</u>

The components of the net deferred tax asset (liability) were as follows:

DEFERRED TAX ASSETS			
Allowance for loan losses	\$1,054,312	\$932,691	\$860,241
Accrued retirement benefits	-	-	41,461
Deferred compensation plan	214,784	205,380	194,264
Unrealized losses on available for sale investment securities	-	23,828	537,768
Allowance for loss on building	73,280	73,280	-
Allowance for ground rent losses	-	-	53,443
Early retirement benefits	-	52,137	-
	<u>1,342,376</u>	<u>1,287,316</u>	<u>1,687,177</u>
DEFERRED TAX LIABILITIES			
Accrued retirement benefits	130,711	126,171	-
Deferred origination costs	277,304	373,225	473,252
Unrealized gains on available for sale investment securities	785,978	-	-
Depreciation	477,832	462,127	320,641
Discount accretion	4,387	7,338	11,255
FHLB Stock dividends	2,019	2,019	2,019
	<u>1,678,231</u>	<u>970,880</u>	<u>807,167</u>
NET DEFERRED TAX ASSET (LIABILITY)	<u>\$(335,855)</u>	<u>\$316,436</u>	<u>\$880,010</u>

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

	<i>2001</i>	<i>2000</i>	<i>1999</i>
Statutory federal income tax rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
Tax-exempt income	(13.2)	(13.9)	(12.4)
State income taxes, net of federal income tax benefit	1.3	3.1	2.0
Other	7.6	1.6	0.5
	<u>29.7%</u>	<u>24.8%</u>	<u>24.1%</u>

19. Lease Commitments

The Company leases various branch and general office facilities to conduct its operations. The leases have remaining terms which range from a period of 2 years to 7 years. Most leases contain renewal options which are generally exercisable at increased rates. Some of the leases provide for increases in the rental rates at specified times during the lease terms, prior to the expiration dates.

The leases generally provide for payment of property taxes, insurance, and maintenance costs by the Company. The total rental expense for all real property leases amounted to \$642,218, \$631,618, and \$570,502, for 2001, 2000, and 1999, respectively.

Lease obligations will require rent payments as follows:

<i>Period</i>	<i>Minimum rentals</i>
2002	\$514,887
2003	519,301
2004	416,042
2005	276,758
2006	210,213
Remaining years	331,915
	<u>\$2,269,116</u>

20. PARENT COMPANY FINANCIAL INFORMATION

The balance sheets for 2001 and 2000 and statements of income and cash flows for Carrollton Bancorp (Parent Only) for 2001, 2000, and 1999, are presented below:

Balance Sheets

	DECEMBER 31	
	<i>2001</i>	<i>2000</i>
Assets		
Cash	\$251,786	\$552,232
Interest-bearing deposits in subsidiary	472,894	871,777
Investment in subsidiary	28,875,143	26,474,295
Investment securities available for sale	3,584,589	2,858,870
Other assets	-	28,175
	<u>\$33,184,412</u>	<u>\$30,785,349</u>
Liabilities and Shareholders' Equity		
Liabilities	<u>\$536,108</u>	<u>\$303,345</u>
Shareholders' Equity		
Common Stock	2,701,254	2,707,733
Surplus	17,017,446	17,090,011
Retained earnings	11,680,425	10,722,132

Accumulated other comprehensive income	<u>1,249,179</u>	<u>(37,872)</u>
	<u>32,648,304</u>	<u>30,482,004</u>
	<u>\$33,184,412</u>	<u>\$30,785,349</u>

Statements of Income

	2001	2000	1999
Income			
Dividends from subsidiary	\$235,309	\$1,300,082	\$1,511,862
Interest and dividends	142,874	158,643	126,255
Security gains	(2,725)	324,645	227,593
	<u>375,458</u>	<u>1,783,370</u>	<u>1,865,710</u>
Expenses	22,034	183,218	133,466
Income before income taxes and equity in undistributed net income of subsidiary	353,424	1,600,152	1,732,244
Income tax expense	10,922	70,860	61,538
	<u>342,502</u>	<u>1,529,292</u>	<u>1,670,706</u>
Equity in undistributed net income of subsidiary	1,590,575	218,240	1,175,341
Net income	<u>\$1,933,077</u>	<u>\$1,747,532</u>	<u>\$2,846,047</u>

Statements of Cash Flows

	2001	2000	1999
Cash flows from operating activities			
Cash dividends from subsidiary	\$235,309	\$1,300,082	\$1,511,862
Interest and dividends received	128,333	133,942	127,912
Cash paid to suppliers	(32,206)	(125,687)	(136,241)
Income taxes paid	(25,256)	(1,619)	42,240
	<u>306,180</u>	<u>1,306,718</u>	<u>1,545,773</u>
Cash flows from investing activities			
Net (increase) decrease in interest-bearing deposits	398,884	(680,858)	524,917
Proceeds from sales of securities available for sale	48,318	2,120,158	1,885,184
Purchases of securities available for sale	-	(240,727)	(2,170,701)
	<u>447,202</u>	<u>1,198,573</u>	<u>239,400</u>
Cash flows from financing activities			
Dividends paid	(974,784)	(971,347)	(864,393)
Common stock repurchase and retirement	(79,044)	(995,579)	(913,254)
	<u>(1,053,828)</u>	<u>(1,966,926)</u>	<u>(1,777,647)</u>
Net (decrease) increase in cash	(300,446)	538,365	7,526
Cash at beginning of year	552,232	13,867	6,341
Cash at end of year	<u>\$251,786</u>	<u>\$552,232</u>	<u>\$13,867</u>
Reconciliation of net income to net cash provided by operating activities			
Net income	\$1,933,077	\$1,747,532	\$2,846,047
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed income of subsidiary	(1,590,575)	(218,240)	(1,175,341)
Security gains	2,725	(324,646)	(227,593)
Decrease (increase) in accounts receivable	28,175	(24,701)	1,656
Increase (decrease) in accounts payable	(67,222)	126,773	101,004
	<u>\$306,180</u>	<u>\$1,306,718</u>	<u>\$1,545,773</u>

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments are summarized below. The fair values of a significant portion of these financial instruments are estimates derived using present value

techniques prescribed by the FASB and may not be indicative of the net realizable or liquidation values. Also, the calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values.

	December 31, 2001		December 31, 2000	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and due from banks	\$19,276,101	\$19,276,101	\$26,249,660	\$26,249,660
Federal funds sold	1,380,865	1,380,865	309,168	309,168
Investment securities (total)	107,712,169	107,712,169	73,382,186	73,382,186
Loans held for sale	361,034	361,034	1,652,863	1,652,863
Loans, net	216,839,176	216,187,177	273,342,745	253,835,273
Accrued interest receivable	2,240,990	2,240,990	2,602,151	2,602,151
FINANCIAL LIABILITIES				
Noninterest-bearing deposits	\$39,986,174	\$39,986,174	\$37,953,473	\$37,953,473
Interest-bearing deposits	225,542,546	230,224,808	254,070,668	256,139,705
Federal funds purchased	1,667,060	1,667,060	1,857,867	1,857,867
Notes payable-U.S. Treasury	657,726	657,726	984,859	984,859
Securities sold under agreements to repurchase	9,565,769	9,565,769	10,514,652	10,514,652
Advances from the Federal Home Loan Bank	45,000,000	50,195,640	50,000,000	53,382,902
Accrued interest payable	550,753	550,753	698,270	698,270

The fair values of U.S. Treasury and Government agency securities, corporate bonds, mortgage-backed securities, and listed equity securities are determined using market quotations. For state and municipal securities, the fair values are estimated using a matrix that considers yield to maturity, credit quality, and marketability.

The fair value of fixed-term loans is estimated to be the present value of scheduled payments, and anticipated prepayments in the case of residential mortgages, discounted using interest rates currently in effect for loans of the same class and term. The fair value of variable-rate loans is estimated to equal the carrying amount. The valuations of fixed-term and variable-rate loans are adjusted for possible loan losses.

The fair value of interest-bearing checking, savings, and money market deposit accounts is equal to the carrying amount. The fair value of fixed-maturity time deposits is estimated based on interest rates currently offered for deposits of similar remaining maturities.

Generally, the Company charges fees for commitments to extend credit. Interest rates on commitments to extend credit are normally committed for periods of less than one month. Fees charged on standby letters of credit are deemed to be immaterial and these guarantees are expected to be settled at face amount or expire unused. It is impractical to assign any fair value to these commitments.

22. SEGMENT INFORMATION

The Company has reportable segments that are strategic business units offering complimentary products and services to the core business of banking. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company provides the accounting for all segments and charges a management fee for this service to the other segments. The Company has also lent money to various segments with terms similar to those offered third parties.

The Commercial/Retail Bank segment provides full service retail and business banking services, including lending and deposit services, investment activities and other customary services associated with a bank.

The Electronic Banking segment provides off-site ATM services, national point of sale transaction originations, home banking, and debit card transaction processing.

The Brokerage segment provides full service brokerage services for stocks, bonds, mutual funds and annuities.

The Mortgage Unit segment provided residential mortgage lending products and services.

Segment information for the Company for 2001 is as follows:

	<i>Commercial/ Retail Bank</i>	<i>Electronic Banking</i>	<i>Brokerage</i>	<i>Mortgage Unit</i>	<i>Segment Totals</i>	<i>Eliminations</i>	<i>Consolidated</i>
Interest income	\$19,122,477	\$-	\$12,015	\$2,599,228	\$21,733,720	\$2,098,904	\$23,832,624
Interest expense	(8,394,419)	(311,599)	-	(2,067,433)	(10,773,451)	(2,098,904)	(12,872,355)
Net interest income	10,728,058	(311,599)	12,015	531,795	10,960,269	-	10,960,269
Provision for loan losses	(502,000)	-	-	(48,000)	(550,000)	-	(550,000)
Noninterest income	1,708,480	4,686,653	1,015,720	(254,409)	7,156,444	-	7,156,444
Intersegment income	67,285	-	-	-	67,285	(67,285)	-
Noninterest expenses	(10,457,180)	(3,678,429)	(648,380)	(100,800)	(14,884,789)	67,285	(14,817,504)
Income before income taxes	1,544,643	696,625	379,355	128,586	2,749,209	-	2,749,209
Income taxes	(353,432)	(269,037)	(144,003)	(49,660)	(816,132)	-	(816,132)
Net income	\$1,191,211	\$427,588	\$235,352	\$78,926	\$1,933,077	\$-	\$1,933,077
Segment assets	\$345,359,793	\$11,245,455	\$569,059	\$22,773,491	\$379,947,798	\$(22,752,858)	\$357,194,940
Expenditures for segment purchases of premises, equipment and software	\$552,223	\$76,206	\$39,610	\$-	\$668,039	\$-	\$668,039

A reconciliation of total segment assets to consolidated total assets follows:

Total segment assets	\$379,947,798
Elimination of intersegment loans	(21,346,400)
Elimination of intersegment deposit accounts	(1,406,458)
	<u>\$357,194,940</u>

Segment information for the Company for 2000 is as follows:

	<i>Commercial/ Retail Bank</i>	<i>Electronic Banking</i>	<i>Brokerage</i>	<i>Mortgage Unit</i>	<i>Segment Totals</i>	<i>Eliminations</i>	<i>Consolidated</i>
Interest income	\$26,026,119	\$-	\$8,363	\$5,289,780	\$31,324,262	\$(4,598,214)	\$26,726,048
Interest expense	(15,623,101)	(333,697)	-	(4,563,100)	(20,519,898)	4,598,214	(15,921,684)
Net interest income	10,403,018	(333,697)	8,363	726,680	10,804,364	-	10,804,364
Provision for loan losses	(400,000)	-	-	(48,000)	(448,000)	-	(448,000)
Noninterest income	2,018,257	4,602,722	1,273,855	18,212	7,913,046	-	7,913,046
Intersegment income	67,742	-	-	-	67,742	(67,742)	-
Non-interest expenses	(10,675,168)	(4,168,422)	(816,975)	(352,524)	(16,013,089)	67,742	(15,945,347)
Income before income taxes	1,413,849	100,603	465,243	344,368	2,324,063	-	2,324,063
Income taxes	(225,006)	(38,853)	(179,677)	(132,995)	(576,531)	-	(576,531)
Net income	<u>\$1,188,843</u>	<u>\$61,750</u>	<u>\$285,566</u>	<u>\$211,373</u>	<u>\$1,747,532</u>	<u>\$-</u>	<u>\$1,747,532</u>
Segment assets	\$370,404,020	\$18,136,079	\$576,273	\$70,937,014	\$460,053,386	\$(72,106,816)	\$387,946,570
Expenditures for segment purchases of premises, equipment and software	\$496,814	\$364,171	\$23,140	\$-	\$884,125	\$-	\$884,125

A reconciliation of total segment assets to consolidated total assets follows:

Total segment assets	\$460,053,386
Elimination of intersegment loans	(69,830,054)
Elimination of intersegment deposit accounts	(2,276,762)
	<u>\$387,946,570</u>

Segment information for the Company for 1999 is as follows:

	<i>Commercial/ Retail Bank</i>	<i>Electronic Banking</i>	<i>Brokerage</i>	<i>Mortgage Unit</i>	<i>Segment Totals</i>	<i>Eliminations</i>	<i>Consolidated</i>
Interest income	\$22,017,371	\$9,595	\$5,088	\$3,518,639	\$25,550,693	\$(3,294,797)	\$22,255,896
Interest expense	(10,919,058)	(519,375)	-	(2,810,013)	(14,248,446)	3,294,797	(10,953,649)
Net interest income	11,098,313	(509,780)	5,088	708,626	11,302,247	-	11,302,247
Provision for loan losses	(501,240)	-	-	(96,600)	(597,840)	-	(597,840)
Noninterest income	2,330,386	7,417,913	1,013,251	149,893	10,911,443	-	10,911,443
Intersegment income	65,985	-	-	-	65,985	(65,985)	-
Noninterest expenses	(11,566,639)	(5,297,546)	(696,778)	(369,576)	(17,930,539)	65,985	(17,864,554)
Income before income taxes	1,426,805	1,610,587	321,561	392,343	3,751,296	-	3,751,296
Income taxes	(295,761)	(333,821)	(124,187)	(151,480)	(905,249)	-	(905,249)
Net income (loss)	\$1,131,044	\$1,276,766	\$197,374	\$240,863	\$2,846,047	\$-	\$2,846,047
Segment assets	\$363,418,659	\$12,466,038	\$302,127	\$69,737,134	\$445,923,958	\$(70,304,757)	\$375,619,201
Expenditures for segment purchases of premises, equipment and software	\$1,759,022	\$1,088,819	\$2,719	\$9,378	\$2,859,938	\$-	\$2,859,938

Other income for the commercial/retail bank includes \$2,404,348 in gains on security sales.

A reconciliation of total segment assets to consolidated total assets follows:

Total segment assets	\$361,323,480
Elimination of intersegment loans	(42,025,412)
Elimination of intersegment deposit accounts	(1,444,079)
	<u>\$317,853,989</u>

23. CONSOLIDATED QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Year Ended December 31, 2001

	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>
Interest income	\$6,830,352	\$6,103,500	\$5,737,948	\$5,160,824
Interest expense	(3,928,960)	(3,367,039)	(3,020,667)	(\$2,555,689)
Net interest income	2,901,392	2,736,461	2,717,281	2,605,135
Provision for loan losses	(137,500)	(137,500)	(137,500)	(137,500)
Security gains (losses)	-	-	(2,725)	-
Gains (losses) on loan sales	(254,324)	(85)	-	-
Other non-interest income	1,933,921	2,022,727	1,863,696	1,593,234
Non-interest expenses	(3,699,772)	(3,894,043)	(3,660,155)	(3,563,534)
Income before income taxes	743,717	727,560	780,597	497,335
Income taxes	(238,546)	(200,666)	(235,467)	(141,453)
Net income	\$505,171	\$526,894	\$545,130	\$355,882
Earnings per share	\$ 0.19	\$ 0.19	\$ 0.20	\$ 0.13
Cash dividends per share	\$0.09	\$0.09	\$ 0.09	\$0.09
Market prices: high	\$ 12.00	\$ 11.70	\$ 13.00	\$ 13.50
low	\$ 10.00	\$10.00	\$ 11.60	\$ 11.55

Year Ended December 31, 2000

	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>
Interest income	\$6,457,036	\$6,464,307	\$6,873,508	\$6,931,197
Interest expense	(3,616,351)	(3,743,274)	(4,258,980)	(4,303,079)
Net interest income	2,840,685	2,721,033	2,614,528	2,628,118
Provision for loan losses	(112,000)	(112,000)	(112,000)	(112,000)
Security gains	53,959	70,207	(49,730)	181,816
Gains on loan sales	15,621	-	-	2,591
Other income	1,801,599	1,866,597	2,028,104	1,942,282
Operating expenses	(4,101,810)	(3,932,063)	(3,855,599)	(4,055,875)
Income before income taxes	498,054	613,774	625,303	586,932
Income taxes	(72,492)	(152,924)	(176,753)	(174,362)
Net income	\$425,562	\$460,850	\$448,550	\$412,570
Earnings per share	\$ 0.15	\$ 0.17	\$ 0.16	\$ 0.16
Cash dividends per share	\$0.085	\$0.09	\$ 0.09	\$0.09
Market prices: high	\$ 15.88	\$ 14.44	\$ 14.50	\$ 14.13
low	\$ 13.50	\$13.19	\$ 13.13	\$ 11.38

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

At no time whatsoever during the Company's two most recent fiscal years or any subsequent interim period, has an independent accountant who was previously engaged as the principal accountant to audit the Company's financial statements, or an independent accountant who was previously engaged to audit a significant subsidiary and on whom the principal accountant expressed reliance in its report, resigned, declined to stand for reelection or been dismissed.

Part III

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The Directors and Executive Officers of the Corporation are as follows:

Directors whose terms expire in 2002

Steven K. Breeden - Mr. Breeden, age 43, has served as a director of the Bank, since June 1994, and of the Company since October 1995. Mr. Breeden is currently Vice President and Secretary of Security Development Corporation, a real estate development company, a position he has held since 1980. (2)

Thelma T. Daley - Dr. Daley, age 70, has served as a director of the Bank since November 1995, and of the Company since May 1998. Dr. Daley retired as the Coordinator of Counseling and Guidance for The Baltimore County Board of Education.

Howard S. Klein - Mr. Klein, age 42, has served as a director of the Bank since March 1999 and of the Company since April 1999. Mr. Klein has been Vice President and General Counsel for Klein's Super Markets, a family-operated chain of five full serve supermarkets and related development and operating companies since 1987. (1)

Leo A. O'Dea - Mr. O'Dea, age 71, has served as a director of the Bank since 1983 and of the Company since its inception in 1990. Mr. O'Dea was elected Chairman of the Company in February 1994 in which he served until resigning his Chairmanship in January 2002. He was President of Hamilton & Spiegel, Inc., a sheet metal contractor, from 1979 until his retirement in 1997. (2)

Directors whose terms expire in 2003

Albert R. Counselman - Mr. Counselman, age 53, has served as a director of the Bank since April 1985,

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

and of the Company since its inception in 1990. Mr. Counselman was elected Chairman of the Board in February 2002. He has been President of Riggs, Counselman, Michaels & Downes, Inc., an insurance brokerage firm, since September 1987, and served in various executive positions with that firm from 1972 to September 1987. (1)(2)

John P. Hauswald - Mr. Hauswald, age 79, has served as a director of the Bank since 1964 and of the Company since its inception in 1990. He was, until his retirement in October 1989, President of The Hauswald Bakery. (2)

David P. Hessler - Mr. Hessler, age 45, has served as a director of the Bank since March 1999, and the Company since May 1999. He has been President and CEO of Eastern Sales & Engineering, an electrical contracting and service maintenance firm, since 1987 and was Vice president from 1986 to 1987. Mr. Hessler has been Vice President of Advanced Petroleum Equipment, a distributorship, since its inception in 1998. (1)

William C. Rogers, Jr. - Mr. Rogers, age 75, has served as a director of the Bank since 1955 and of the Company since its inception in 1990. He has been a partner in the law firm of Rogers, Moore and Rogers, counsel to the Bank, since 1970. He has been Chairman of the Board of The Security Title Guarantee Corporation of Baltimore since 1970 and a director since 1952, and was President from 1970 until March 1989. Mr. Rogers is President of Maryland Mortgage Company where he has been a director since 1953. He is also President of Moreland Memorial Park Cemetery, Inc. where he has been a director since 1959. He is the brother of John Paul Rogers, a director of the Bank and the Company.

Directors whose terms expire in 2004

Robert J. Aumiller - Mr. Aumiller, age 53, currently is serving as a director of the Bank and Company beginning with his appointment in 2001. He has been the Executive Vice President of MacKenzie Commercial Real Estate Services, involved in

brokerage and real estate development of various commercial real estate projects, since 1983.

Ben F. Mason - Mr. Mason, age 64, currently is serving as a director of the Bank and Company beginning with his appointment in 2001. He has been the Executive Director of the Baltimore City Chamber of Commerce, a member business association that promotes business development within Baltimore City, since 1993.

Charles E. Moore, Jr. - Mr. Moore, age 52, currently is serving as a director of the Bank and Company beginning with his appointment in 2001. He has been the Co-Founder, Director, President and CFO of TelAtlantic, a consolidation of rural telephone companies across the United States, since 1999. Mr. Moore has been the Co-Founder, Director,

and CFO of GoEbusiness.com, which specialize in the development of customized E-Commerce solutions, since 1998.

John Paul Rogers - Mr. Rogers, age 66, has served as director of the Bank since 1970 and of the Company since its inception in 1990. Mr. Rogers has been Chairman of the Bank since February 1994. He was a partner of the law firm of Rogers, Moore and Rogers, counsel of the Bank, from 1970 until 1992. Mr. Rogers was senior title officer of The Security Title Guarantee Corporation of Baltimore from May 1991 until December 1992, having served as President from March 1989 until May 1991, and as Executive Vice President from March 1970 until March 1989. He is the brother of William C. Rogers, Jr. a director of the Bank and the Company.

The Board of Directors of the Company met 6 times and the Board of Directors of the Bank 12 times during the year ended December 31, 2001. The Board of Directors of the Bank meets 12 times each year. No director attended fewer than 75% of the total number of meetings of both Boards and committees to which they were assigned during the year ended December 31, 2001.

As of the date of this Proxy Statement, the Board of Directors does have a standing nominating committee.

The Audit Committee held 8 meetings during 2001. Its current members are Messrs. Counselman, Hessler, Klein and Moore. Only non-employee directors are eligible to serve on the Audit Committee. The duties of the Audit Committee include reviewing the annual financial statements of the Company and the scope of the independent annual audit and internal audits. It also reviews the independent accountant's letter to management concerning the effectiveness of the Company's internal financial and accounting controls and management's response to that letter. In addition, the Committee reviews and recommends to the Board the firm to be engaged as the Company's independent accountants. The Committee may also examine and consider other matters relating to the financial affairs of the Company as it determines appropriate.

The Compensation Committee met 3 times during 2001. Its current members are Messrs. Breeden, Counselman, Hauswald, and O'Dea. The purpose of the Compensation Committee is to review and approve major compensation and benefit policies of the Company and the Bank. In addition, the committee recommends to the Board the compensation to be paid to all officers, Senior Vice President and above, of the Bank.

Directors who are not employees of the Bank receive a monthly fee of \$900 for Board meetings, and between \$75 and \$150 per committee meeting attended. The Chairman of the Board of the Bank receives a monthly fee of \$1,100. Directors do not receive additional fees for their service as directors of the Company.

OTHER EXECUTIVE OFFICERS AND DIRECTORS OF THE BANK

Certain information regarding directors and significant employees of the Bank other than those previously mentioned is set forth below.

Robert A. Altieri - Mr. Altieri, age 40, has been President and Chief Executive Officer of both the Bank and Company since his appointment in February 2001. Mr. Altieri previously was the Senior Vice President—Lending of the Bank since June 1994, and Vice President—Commercial Lending since September 1991.

Edward R. Bootey - Mr. Bootey, age 55, has been Senior Vice President—Automation & Technology since October, 1995, and was Senior Vice President—Operations of the Bank from June 1994 to October 1995. Mr. Bootey previously served as Vice President—Operations from January 1991. He served as Assistant Vice President—Operations from December 1987 until January 1991.

Donna D. Dorman - Ms. Dorman, age 35, has been Senior Vice President Branch Administration since September 2001. Prior to joining Carrollton Bank, Ms. Dorman was Sales Manager for First Union Bank from 1997 - 2001. She served as Marketing Manager for First Union, Baltimore from 1995 - 1997.

John A. Giovanazi - Mr. Giovanazi, age 44, has been Senior Vice President and Chief Lending Officer since his appointment February 2001. Mr. Giovanazi previously was Vice President of Commercial Lending since August 1996. Prior to joining Carrollton Bank, he was a Vice President, Commercial Lending, with Citizens Bank of Maryland, from 1992 to 1996.

Gary M. Jewell - Mr. Jewell, age 55, has been Senior Vice President and Retail Delivery Group Manager since July 1998. He was previously Senior Vice President Electronic Banking from March 1996 to July 1998. Prior to joining Carrollton Bank, Mr. Jewell was Director of Product Management and Point of Sale Services for the MOST EFT network in Reston, Virginia from March 1995 to March 1996 and prior to that Director/Manager of Merchant Services for the Farmers and Mechanics National Bank from 1993 to March 1995.

Randall M. Robey - Mr. Robey, age 44, has been Executive Vice President and Chief Financial Officer of both the Bank and Company, since November 2000. Previously he had been the Senior Vice President and Chief Financial Officer and Treasurer

since October 1999. Prior to joining Carrollton Bank, Mr. Robey was Vice President of Financial Services of Mercantile Bank & Trust of Baltimore, Maryland from June of 1998 to October 1999, and prior to that Senior Vice President and Chief Financial Officer of Annapolis Bank & Trust from March of 1989 to June 1998.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers and persons who own more than ten percent of the Company's Common Stock ("a Section 16 Insider") to file monthly and annual reports with both the Securities and Exchange Commission and

the National Association of Securities Dealers. Based on a review of the reports submitted to the Company, the Company believes that all Section 16(a) reporting requirements applicable to the Company's directors, officers and 10% shareholders were satisfied on a timely basis.

ITEM 11: EXECUTIVE COMPENSATION

The following table sets forth the compensation paid or allocated for services rendered to the Company in all capacities during the years ended December 31, 1999, 2000 and 2001 to the chief executive officer of the Company. The compensation of the other members of executive management does not exceed \$100,000.

Summary Compensation Table

<i>Name and Principal Position</i>	<i>Year</i>	<i>Salary (\$)</i>	<i>Long-Term Incentive Plan</i>		<i>Other Compensation (\$)</i>
			<i>Stock Option Grants (Shares)</i>	<i>Bonus (\$)</i>	
Robert A. Altieri	2001	\$172,943	10,000	\$0	
President and Chief Executive Officer	2000	\$102,226	3,000	\$1,800	
	1999	\$97,908	6,000	\$5,000	
Randall M. Robey	2001	\$119,682	7,000	\$0	
Executive Vice President and Chief Financial Officer	2000	\$94,807	3,000	\$1,800	
	1999	\$12,807	1,000	\$1,000	

The Company had no employment agreements, termination of employment, or change-in-control agreements or understandings with any of its directors, executive officers or any other parties.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of December 31, 2001, certain information concerning shares of the Common Stock of the Company beneficially owned by (i) the chief executive officer of the Company; (ii) all directors and nominees for directors of the Company and the Bank; (iii) all directors and officers of the Company and the Bank as a group; and (iv) other significant shareholders.

<i>Beneficial Owner(1)(20)</i>	<i>Amount and Nature of Beneficial Ownership</i>	<i>Percent of Class:</i>
Robert J. Aumiller	500(3)	*
Steven K. Breeden	8,620(4)	*
Albert R. Counselman	36,113(5)	1.34%
Thelma T. Daley	1,910(6)	*
Harold I. Hackerman	500(7)	*
John P. Hauswald	14,202(8)	*
David P. Hessler	1,400(9)	*
Howard S. Klein	3,800(10)	*
Ben F. Mason	64,504(11)	2.39%
Charles E. Moore, Jr.	2,946(12)	*
Leo A. O'Dea	13,616(13)	*
John Paul Rogers	195,812(14)	7.26%
William C. Rogers, Jr.	259,972(15)(16)(17)	9.62%
All Directors and Executive Officers of the Company as a Group (14 persons)	616,727(2)(19)	22.84%

Other Significant Shareholder:
Patricia A. Rogers

224,782(18)

8.32%

* Less than 1%

- (1) Unless otherwise indicated, the named person has sole voting and investment power with respect to all shares.
- (2) Includes 166 shares Mr. Altieri holds as trustee for minor children under the Maryland Uniform Gifts to Minors Act, and 11,000 fully vested options to purchase shares at an exercise price of between \$11.49 and \$18.68 per share.
- (3) Includes 400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$11.063 per share.
- (4) Includes 3,098 shares owned jointly by Mr. Breeden and his wife and 2,400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$19.00 per share.
- (5) Includes 2,400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$19.00 per share, but excludes 3,000 shares owned by Mr. Counselman's wife.
- (6) Includes 1,800 fully vested options to purchase shares at an exercise price of between \$10.20 and \$18.68 per share.
- (7) Includes 400 shares owned jointly by Mr. Hackerman and his wife.
- (8) Includes 11,802 shares owned by Mr. Hauswald and 2,400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$19.00 per share.
- (9) Includes 1,000 fully vested options to purchase shares at an exercise price of between \$10.20 and \$16.19 per share.
- (10) Includes 400 shares owned jointly by Mr. Klein and his wife. Also includes 1,600 shares owned by Colgate Investments, LLP, of which Mr. Klein is a shareholder and 600 shares Mr. Klein holds as trustee for minor children under the Maryland Uniform Gift to Minors Act. Also includes 1,200 fully vested options to purchase shares at an exercise price of between \$10.20 and \$16.13 per share.
- (11) Includes 400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$11.063 per share. Also includes 63,904 shares owned by The Security Title Guarantee Corporation of Baltimore of which Mr. Mason is a Director.
- (12) Includes 400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$11.063 per share, but excludes 16,296 shares owned by Mr. Moore's wife.
- (13) Includes 2,400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$19.00 per share but excludes 15,754 shares owned by Mr. O'Dea's wife.
- (14) Includes 2,400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$19.00 per share. Also includes 63,904 shares owned by The Security Title Corporation of Baltimore and 9,506 shares owned by Maryland Mortgage Company of which Mr. Rogers is a principal shareholder
- (15) Includes 63,904 shares owned by The Security Title Guarantee Corporation of Baltimore and of which William C. Rogers, Jr. is Chairman, as well as a director. Includes 2,400 fully vested options to purchase shares at an exercise price of between \$10.20 and \$19.00 per share.
- (16) Includes 9,720 shares owned by the Moreland Memorial Park Cemetery Bronze Perpetual Care Trust Agreement, Inc., owned by the Moreland Memorial Park Cemetery Inc. 44,364 shares owned by the Moreland Memorial Park Cemetery, Inc. Perpetual Care Trust Agreement for which William C. Rogers, Jr. serves as trustee, and 9,506 shares owned by Maryland Mortgage Company of which William C. Rogers, Jr. is President, as well as a Director.
- (17) Includes 128,598 shares owned jointly by Mr. Rogers and his wife. Excludes 11,548 shares owned by Mr. Roger's wife.
- (18) Includes 151,372 shares owned by Mrs. Rogers. Also, includes 63,904 shares owned by The Security Title Guarantee Corporation of Baltimore and 9,506 shares owned by Maryland Mortgage Company of which Mrs. Rogers is a principal shareholder.
- (19) Includes 1,666 fully vested options to purchase shares at an exercise price of between \$11.49 and \$16.25 by Mr. Robey.
- (20) All directors, executive officers and other significant shareholders may be contacted at the Company's corporate offices by addressing correspondence to the appropriate person, care of Carrollton Bancorp, 344 North Charles Street, Suite 300, Baltimore, Maryland 21201.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the past year the Company has had banking transactions in the ordinary course of its business with: (i) its directors and nominees for directors; (ii) its executive officers; (iii) its 5% or greater shareholders; (iv) members of the immediate

family of its directors, nominees for directors or executive officers and 5% shareholders; and (v) the associates of such persons on substantially the same terms, including interest rates, collateral, and repayment terms on loans, as those prevailing at the same time for comparable transactions with others. The extensions of credit by the Company to these persons have not and do not currently involve more than the normal risk of collectibility or present other unfavorable features. At December 31, 2001, the balance of loans outstanding to directors, executive officers, owners of 5% or more of the outstanding Common Stock, and their associates, including loans guaranteed by such persons, aggregated \$5,264,386 which represented approximately 16.1% of the Company's equity capital accounts.

William C. Rogers, Jr., a director of both the Company and the Bank, is a partner of the law firm of Rogers, Moore and Rogers which performs legal services for the Company, the Bank, and Bank Subsidiaries. Management believes that the terms of these transactions which totaled \$173,737 in 2001 were at least as favorable to the Company as could have been obtained elsewhere.

Albert R. Counselman, a director of both the Company and the Bank, is President and Chief Executive Officer of Riggs, Counselman, Michaels & Downes, Inc., an insurance brokerage firm through which the Company, the Bank, and Bank subsidiaries place various insurance policies. The Company and the Bank paid total premiums for insurance policies placed by Riggs, Counselman, Michaels & Downes, Inc in 2001 of \$249,889. Management believes that the terms of these transactions were at least as favorable to the Company as could have been obtained elsewhere.

Robert J. Aumiller, a director of both the Company and the Bank is Executive Vice President of MacKenzie Real Estate Services, a brokerage and real estate development firm, through which the Company and the Bank paid for commercial real estate services of \$5,021 for appraisal and property management services provided by MacKenzie Commercial Real Estate Services

Part IV

ITEM 14: EXHIBITS LIST AND REPORTS ON FORM 8-K

a) List of Exhibits:

<i>Exhibit Number</i>	<i>Description</i>
3(i)	Articles of Incorporation of Carrollton Bancorp *
3(ii)	By-Laws of Carrollton Bancorp *
10.1	Lease dated January 24, 1989 by and between Hill Management Services, Inc. and The Carrollton Bank of Baltimore. *
10.2	Lease dated July 21, 1989 by and between Hill Management Services, Inc. and The Carrollton Bank of Baltimore. *
10.3	Lease dated October 30, 1959 between Arbutus Shopping Plaza, Inc. and The Carrollton Bank of Baltimore, as amended. *
10.4	Lease dated August 3, 1976 between Arbutus Shopping Plaza, Inc. and The Carrollton Bank of Baltimore. *
10.5	Lease dated May 20, 1971 by and between Home Mutual Life Insurance Company and The Carrollton Bank of Baltimore. *
10.6	Lease dated April 17, 1974 by and between Liberty Plaza Enterprises, Inc. and The Carrollton Bank of Baltimore. *
10.7	Lease dated July 19, 1988 by and between Northway Limited Partnership and The Carrollton Bank of Baltimore. *
10.8	Lease dated August 11, 1994 by and between Kensington Associates Limited Partnership and Carrollton Bank. **
10.9	Lease dated October 11, 1994 by and between Ridgeview Associates Limited Partnership and Carrollton Bank. **
21.1	Subsidiaries of Carrollton Bancorp
23	Consent of Accountant

Director

March 20, 2002

/s/ LEO A. O'DEA

Leo A. O'Dea
Director

March 20, 2002

/s/ JOHN PAUL ROGERS

John Paul Rogers
Director

March 20, 2002

/s/ WILLIAM C. ROGERS, JR.

WILLIAM C. ROGERS, JR.
DIRECTOR

Exhibit Index

<i>Exhibit Number</i>	<i>Description</i>	<i>Sequentially Numbered Page</i>
3(i)	Articles of Incorporation of Carrollton Bancorp	*
3(ii)	By-Laws of Carrollton Bancorp	*
10.1	Lease dated January 24, 1989 by and between Hill Management Services, Inc. and The Carrollton Bank of Baltimore.	*
10.2	Lease dated July 21, 1989 by and between Hill Management Services, Inc. and The Carrollton Bank of Baltimore.	*
10.3	Lease dated October 30, 1959 between Arbutus Shopping Plaza, Inc. and The Carrollton Bank of Baltimore, as amended.	*
10.4	Lease dated August 3, 1976 between Arbutus Shopping Plaza, Inc. and The Carrollton Bank of Baltimore.	*
10.5	Lease dated May 20, 1971 by and between Home Mutual Life Insurance Company and The Carrollton Bank of Baltimore.	*
10.6	Lease dated April 17, 1974 by and between Liberty Plaza Enterprises, Inc. and The Carrollton Bank of Baltimore.	*
10.7	Lease dated July 19, 1988 by and between Northway Limited Partnership and The Carrollton Bank of Baltimore.	*
10.8	Lease dated August 11, 1994 by and between Kensington Associates Limited Partnership and Carrollton Bank.	**
10.9	Lease dated October 11, 1994 by and between Ridgeview Associates Limited Partnership and Carrollton Bank.	**
21.1	Subsidiaries of Carrollton Bancorp	
23	Consent of Accountant	

* *Incorporated by reference from Registration Statement dated January 12, 1990 on SEC Form S-4 (1933 Act File No.: 33-33027).*

** *Incorporated by reference from Annual Report on Form 10-KSB for the fiscal year ended December 31, 1994 (1934 Act File No.: 0-23090).*

Exhibit 21.1

Subsidiaries of Carrollton Bancorp

Carrollton Bancorp

Carrollton Bank

Carrollton Financial Services, Inc.

Carrollton Community Development Corp.

Carrollton Mortgage Services, Inc.

Subsidiaries are indicated by indentation. All subsidiaries are 100% owned, except for Carrollton Community Development Corp. which is 96.4% owned.

Exhibit 23

Consent of Independent Public Accountant

Carrollton Bancorp
Baltimore, Maryland

As independent public accountants, we hereby consent to the incorporation of our report dated February 26, 2002 on the consolidated financial statements of Carrollton Bancorp and Subsidiary included in this Form 10-K into Carrollton Bancorp's previously filed registration statement on Form S-8, File No. 333-82915.

Baltimore, Maryland
February 26, 2002

DIRECTORS AND OFFICERS**DIRECTORS**

Robert J. Aumiller
Executive Vice President
MacKenzie Commercial Real Estate Services

Steven K. Breeden
Vice President and Secretary
Security Development Company

Albert R. Counselman
President and Chief Executive Officer
Riggs, Counselman, Michaels & Downes, Inc.

Thelma T. Daley
Assistant Professor
Loyola College

Harold I. Hackerman
Vice President
Ellin & Tucker, Chartered

John P. Hauswald
Retired Business Owner

David P. Hessler
President and CEO
Eastern Sales and Engineering Co.

Howard S. Klein
Vice President and General Counsel
Klein's Super Markets

Ben F. Mason
Executive Director
Baltimore Chamber of Commerce

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

Leo A. O'Dea
Retired Business Owner

John Paul Rogers
Attorney

William C. Rogers, Jr.
Attorney

William McCallister
Director Emeritus

OFFICERS

CARROLLTON BANCORP
Albert R. Counselman
Chairman of the Board
Robert A. Altieri
President and Chief Executive Officer

D. Doreen Smith—*Vice President and Secretary*
Randall M. Robey—*Treasurer and Executive Vice President*

CARROLLTON BANK

John Paul Rogers
Chairman of the Board
Robert A. Altieri
President and Chief Executive Officer
Randall M. Robey—*Executive Vice President and Chief Financial Officer*
D. Doreen Smith—*Vice President and Secretary*

Senior Vice Presidents:

Edward R. Bootey—*Operations*
Donna D. Dorman—*Branch Administration*
John A. Giovanazi—*Lending*
Gary M. Jewell—*Retail Banking*

Vice Presidents:

Andrew N. Barrow—*Commercial Lending*
Jeffrey E. Brown—*Consumer Lending*
Leroy J. Cummins—*Audit*
William DePaola—*Commercial Lending*
Terry R. Frey—*Loan Servicing*
Stephen G. Hyman—*Commercial Lending*
Lola Lewchuk—*Compliance*
Eleni Monios—*Commercial Lending*
Robert J. Morales—*Operations*
Joyce F. Murphy—*Electronic Banking*
Gary C. Paul—*Commercial Lending*
William M. Rash—*Retail Investment*
Nancy Isaac-Simering—*Marketing & Sales*
Harry P. Schultheis—*Commercial lending*
Samuel A. Sparks—*Finance*
Eunice W. Taylor—*Electronic Banking*
Lois A. Ward—*Human Resources*
Victor Zubar—*MIS*

Assistant Vice Presidents:

Karen D. Trimp—*Training*
Robert J. Tolson—*Loan Servicing*
Sydney Minor—*Branches*

CARROLLTON FINANCIAL SERVICES, INC.

Brian J. Culloty
Chairman of the Board and President
Teresa M. Bracci
Vice President and Secretary

CARROLLTON MORTGAGE SERVICES, INC.

Robert A. Altieri
President

Terry R. Frey
Vice President

CARROLLTON COMMUNITY DEVELOPMENT CORPORATION

Gary C. Paul
President

SHAREHOLDER INFORMATION

BUSINESS SUMMARY

Carrollton Bancorp (the Company) is a bank holding company registered under the Bank Holding Company Act of 1956, and was organized on January 11, 1990. Carrollton Bank is a Maryland State chartered commercial bank and the principal subsidiary of the Company. The Bank was incorporated under the laws of the State of Maryland in 1903 and is engaged in a general commercial and retail banking business. Carrollton Financial Services, Inc., a subsidiary of the Bank, provides full service brokerage services for stocks, bonds, mutual funds and annuities. Carrollton Mortgage Services, Inc., also a subsidiary of the Bank, is an inactive residential mortgage lender.

The Bank operates 11 full service branch offices in Baltimore County, Baltimore City, and Anne Arundel County, Maryland. The Bank offers a wide range of both personal and commercial deposit and loan services.

The Bank and its subsidiaries currently have 149 full time equivalent employees. Management considers its relationship with its employees to be good.

The Bank faces strong competition in its market area. Its most direct competition for deposits comes from other commercial banks, savings banks, savings and loan associations and credit unions. It also competes for deposits with brokerage houses, mutual funds and, to a lesser extent, the securities markets. The Bank also competes with the same banking entities for loans, as well as with mortgage banking companies and other institutional lenders. Some of the Bank's competitors have assets and operating capacity which exceed that of the Bank.

The Company is subject to regulation and examination by the Federal Reserve Board, and is required to file periodic reports and any additional information that the Federal Reserve Board may require. The Bank is subject to supervision, regulation and examination by the Department of Labor, Licensing and Regulation of the State of Maryland and the Federal Deposit Insurance Corporation.

CORPORATE HEADQUARTERS:
344 North Charles Street, Suite 300
Baltimore, Maryland 21201
Phone: (410) 536-4600
Internet: www.carrolltonbank.com

INVESTMENT SUBSIDIARY:
Carrollton Financial Services, Inc.
The Avenue at White Marsh
8157A Honeygo Blvd.
White Marsh, Maryland 21236
Phone: (410) 242-6418
(800) 851-0851

MORTGAGE SUBSIDIARY:
Carrollton Mortgage Services, Inc.
344 North Charles Street, Suite 200
Baltimore, Maryland 21201

ANNUAL MEETING NOTICE:
The annual meeting of shareholders of Carrollton Bancorp will be held on Tuesday, April 23, 2002 at 10 a.m. at the Corporate Headquarters, 344 North Charles Street, Baltimore, Maryland.

STOCK LISTING:
The common stock of Carrollton Bancorp trades on the NASDAQ National Market tier of The NASDAQ Stock Market under the symbol "CRRB". There were 488 record holders of stock at December 31, 2001.

TRANSFER AGENT AND REGISTRAR:
American Stock Transfer & Trust Company
40 Wall Street
New York, New York 10005
Phone: (800) 937-5449

INDEPENDENT ACCOUNTANTS:
Rowles & Company, LLP
101 E. Chesapeake Avenue, Suite 300

Baltimore, Maryland 21286

During 2001 and 2000, there were no disagreements with the Company's accountants on accounting matters or financial disclosure.

ADDITIONAL INFORMATION:

The Company files an annual report with the Securities and Exchange Commission on Form 10-K. Any shareholder may obtain a copy, without charge, upon request to the Company's Treasurer.

ANALYSTS, INVESTORS, AND OTHERS SEEKING FINANCIAL INFORMATION ABOUT THE COMPANY ARE INVITED TO CONTACT:

Randall M. Robey
Treasurer
Carrollton Bancorp
344 North Charles Street
Baltimore, Maryland 21201
Phone: (410) 536-7308

NOTES

NOTES

NOTES