PUBLIC DISCLOSURE

May 14, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

BankAnnapolis

1434826

1000 Bestgate Road

Annapolis, Maryland 21401

Federal Reserve Bank of Richmond
P. O. Box 27622
Richmond, Virginia 23261

TABLE OF CONTENTS

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered reasonable in relation to bank capacity and demand for credit in the bank's assessment area.
- A majority of the institution's Home Mortgage Disclosure Act (HMDA) and small business loans were originated to borrowers within the bank's assessment area.
- Overall, lending to borrowers of different income levels and to businesses with revenues of $1 million or less is reasonable when considering the various proxies for demand.
- The geographic distribution of the institution's HMDA and small business loans is considered poor compared to area demographics and lending by other creditors in the area.
- The bank's level of qualified community development loans, investments, and services demonstrates an adequate responsiveness to community development needs.
- The bank has not received any complaints regarding CRA performance since the previous examination.

SCOPE OF EXAMINATION

The institution was evaluated using the interagency examination procedures developed by the Federal Financial Institutions Examination Council (FFIEC). Consistent with these procedures, 2010 and 2011 HMDA loans reported by the institution were reviewed. In addition, based on the number of new loans originated recently by the institution, small business loans were also identified as a primary credit product and considered in the evaluation. The analysis included all small business loans (70) originated by the institution in 2011. The community development test considers all qualified community development loans, investments, and services made or performed since the previous evaluation dated August 23, 2011, as well as other qualified investments outstanding as of the date of this evaluation, regardless of when made.

DESCRIPTION OF INSTITUTION

BankAnnapolis (BA) is headquartered in Annapolis, Maryland, and operates seven branch offices in Anne Arundel and Queen Anne's Counties, Maryland. Six branches are located in Anne Arundel County, and one branch is in Queen Anne's County. The bank is a wholly owned subsidiary of Annapolis Bankcorp, Incorporated, a single bank holding company also headquartered in Annapolis. Since the previous evaluation, the bank closed a branch office in Anne Arundel County located in an upper-income census tract. The branch closure did not require reconfiguration of the bank's assessment area.

As of March 31, 2012, the bank held total assets of $440.5 million, of which 66.8% were net loans and 18.8% were securities. As of March 31, 2012, deposits totaled $346.9 million. Various deposit and loan products are available through the institution including loans for residential mortgage, consumer, and business purposes. The composition of the loan portfolio (using gross loans) as of March 31, 2012, is depicted in the following table:

Composition of Loan Portfolio

Loan Type	3/31/2012	
	$(000s)	%
Secured by 1-4 Family dwellings	82,447	27.4
Multifamily	0	0.0
Construction and Development	39,868	13.3
Commercial & Industrial/ NonFarm NonResidential	169,716	56.4
Consumer Loans and Credit Cards	8,832	2.9
Agricultural Loans/ Farmland	0	0.0
All Other	0	0.0
Total	***300,863***	***100.0***

As reflected in the preceding table, the greatest dollar amounts of lending within the bank's loan portfolio are represented by commercial and industrial/nonfarm nonresidential loans and loans secured by one- to four-family dwellings. These two categories of lending account for the greatest volume of recent lending as well, and consequently led to the selection of HMDA and small business loans for inclusion in the evaluation. The bank's business strategy continues to concentrate on operating as a community bank with a primary focus on commercial lending with the majority of its deposits collected on a retail basis from its market area. The bank does not face any legal impediments that would serve to constrain its ability to meet the credit needs of its assessment area. BA received a Satisfactory rating at its previous CRA evaluation dated August 23, 2010.

DESCRIPTION OF BALTIMORE-TOWSON, MD METROPOLITAN STATISTICAL AREA

The bank serves one assessment area which is located within the Baltimore-Towson, Maryland Metropolitan Statistical Area (MSA) and includes all of Anne Arundel County and tracts 8106.00 – 8110.00 in Queen Anne's County, Maryland. According to recent (June 30, 2011) data from the Federal Deposit Insurance Corporation, BA ranked 9th out of 35 institutions in local deposit market share having 3.1% of area deposits.

According to the 2000 census data, the assessment area has a population of 514,241 and a median housing value of $157,263. The owner-occupancy rate for the assessment area is 72.5%, which is higher than the owner-occupancy rates for the MSA (62.1%) and the State of Maryland (62.5%). The area's family poverty rate, 3.6%, is lower than that of the State of Maryland (6.1%) and the MSA (7.2%). The 2010 and 2011 median family income for the MSA equaled $82,200 and $84,500, respectively. The following table includes pertinent demographic data for the assessment area based upon both 2000 census data and, in the case of businesses, 2010 Dun & Bradstreet (D&B) data.

Assessment Area Demographics

Baltimore-Towson, MD MSA								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	17,383	12.7
Moderate	7	7.0	8,218	6.0	678	8.3	21,475	15.7
Middle	47	47.0	59,153	43.1	2,736	4.6	32,161	23.5
Upper	45	45.0	69,732	50.9	1,458	2.1	66,084	48.2
NA	1	1.0	0	0.0	0	0.0		
Total	*100*	*100.0*	*137,103*	*100.0*	*4,872*	*3.6*	*137,103*	*100.0*
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	26,306	14.0
Moderate	3,369	2.4	12,889	6.9	1,373	10.7	26,370	14.0
Middle	61,583	43.1	82,787	44.0	4,861	5.9	37,367	19.9
Upper	77,999	54.6	92,414	49.1	2,953	3.2	98,047	52.1
NA	0	0.0	0	0.0	0	0.0		
Total	*142,951*	*100.0*	*188,090*	*100.00*	*9,187*	*4.9*	*188,090*	*100.0*
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = $1 Million		Over $1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	556	2.0	518	2.1	15	0.8	23	2.1
Middle	12,145	43.7	10,770	43.2	838	47.3	537	48.5
Upper	15,112	54.3	13,648	54.7	917	51.8	547	49.4
NA	7	0.0	6	0.0	1	0.1	0	0.0
Total	*27,820*	*100.0*	*24,942*	*100.0*	*1,771*	*100.0*	*1,107*	*100.0*
Percentage of Total Businesses:				89.7		6.4		4.0

**NA-Tracts without household or family income as applicable*

Based on 2010 D&B information according to 2000 Census Boundaries.

The bank's assessment area is centrally located approximately 30 miles south of Baltimore, Maryland, and 30 miles northeast of Washington, D.C. The area's major industries include Federal and local government, defense-related, technology, and tourism. The area is home to the state capital of Maryland and the U.S. Naval Academy. Major employers in the area include the National Security Agency, the U.S. Naval Academy, Northrup Grumman, Computer Sciences Corporation, and BWI Thurgood Marshall Airport. Unemployment rates for the last month of each quarter since the previous CRA evaluation are presented by county, MSA, and state in the following table.

Unemployment Rate Trend							
Geographic Area	Sept-10	Dec-10	Mar-11	Jun-11	Sept-11	Dec-11	Mar-12
Anne Arundel County	6.7%	6.4%	6.4%	6.8%	6.4%	5.6%	6.1%
Queen Anne's County	6.4%	6.8%	7.4%	7.1%	6.4%	6.5%	6.8%
Baltimore-Towson MSA	8.1%	7.7%	7.5%	7.9%	7.4%	6.6%	7.1%
State of Maryland	7.8%	7.5%	7.1%	7.2%	7.1%	6.6%	6.6%

As indicated in the preceding table, unemployment rates have trended downward in most areas but slight increases in unemployment occurred during the most recent quarter. A high unemployment rate may adversely affect a bank's ability to extend credit as unemployed applicants and local businesses often have diminished repayment capacity. Overall employment opportunities in the assessment area appear to be improving as indicated by decreasing unemployment rates from the higher levels experienced in earlier quarters.

A local economic development official was recently contacted to discuss local economic conditions and area credit needs. The contact indicated that opportunities exist for banks to provide financing to small businesses and that local financial institutions offer a variety of programs to contribute to economic growth and community development. The contact also stated that while the area had been moderately impacted by the national economic conditions, Anne Arundel County's proximity to Washington, D.C. and the large number of government employers in surrounding areas largely insulated the local economy from the greatest negative effects. In the opinion of the contact, financial institutions are adequately serving the needs of the local community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

To evaluate the bank's lending performance, HMDA and small business lending activity was analyzed. Area demographic and market aggregate data (when available for the same year) are used as proxies for demand when evaluating the bank's performance. Demographic data is from the 2000 census, while D&B business demographic data are from 2010. Aggregate small business and HMDA data are from calendar year 2010. Since small business aggregate lending data is not available for 2011, the year for which small business loans were analyzed, the 2010 small business aggregate data are considered as performance context but not included in the loan distribution tables. Aggregate HMDA data include all activity reported by lenders subject to reporting HMDA that originated and/or purchased such loans within the bank's assessment area. Similarly, the aggregate small business lending data includes all lenders subject to reporting small business data. The bank is not subject to CRA reporting requirements; therefore, the bank's small business lending activity is not included in the aggregate data.

While HMDA loan data from calendar years 2010 and 2011 were fully analyzed and considered in the evaluation, only HMDA data from 2010 is presented in the following tables. In instances where HMDA loan performance during 2010 varies significantly from performance in 2011, such variances and the corresponding impact on the overall performance are discussed. In arriving at conclusions regarding HMDA lending, the dollar volumes associated with each year become important factors. The bank's volume of HMDA lending during 2010 ($26.9 million) was significantly higher than in 2011 ($11.8 million). Consequently, 2010 HMDA lending is weighted more heavily than 2011 in the lending analysis. Additionally, since the analysis includes two years of HMDA data and small business loans for only 2011, understanding the relative size of the bank's HMDA and small business lending is an important performance context factor. During 2011, the bank originated approximately $11.8 million in HMDA loans, and during the same time period, the bank originated a greater total dollar volume of small business loans (approximately, $15.2 million). Accordingly, approximately equal weight is given to the bank's small business and HMDA loan performance in the analysis when considering average HMDA dollar volume and the lending volume trend.

Typically, the borrower and the geographic distribution of lending are accorded approximately equal weight when gauging overall lending distribution performance. Both demographic data and aggregate lending data suggest there are very limited opportunities to lend in moderate-income geographies (there are no low-income geographies in the assessment area); therefore, greater weight is placed upon performance related to lending to borrowers of different incomes and businesses of different sizes.

When evaluating the distribution of loans, primary consideration is given to the number (and corresponding percentage) of loans when assessing lending performance for specific individual loan types. When combining multiple loan types to arrive at an overall conclusion, the level of performance for each product is weighted primarily by the dollar volume that the product contributes to the overall activity considered in the evaluation. All conclusions also take into consideration relevant performance context factors.

The distribution of small business lending for a group of lenders that excludes certain large reporters of credit card loans is considered as an element of performance context. Throughout the bank's assessment area, a high level of small business lending activity is noted for specialized lenders who tend to originate small business loans in the form of credit cards. These loans, however, tend to be much smaller in size than traditional small business bank loans. Not only do such loans tend to be smaller, but when included in the aggregate, these reporters often tend to depress the proportion of reported loans to businesses with revenues of $1 million or less because many of the loans reported by these card lenders do not include revenue information.

Overall, the bank's lending test performance is rated satisfactory. This rating considers the bank's loan-to-deposit ratio, level of lending in assessment area, and both borrower and geographic lending distribution performances.

The review of the bank’s community development performance is also rated satisfactory. This conclusion is based on the number and amount of community development loans, the amount of qualified investments, the extent to which the bank provides community development services, and the bank’s responsiveness to identified community development lending, investment, and service needs. Given the bank’s overall satisfactory community development performance within its assessment area, as discussed in more detail later in this evaluation, consideration was also given to the bank’s origination of a community development loan benefiting an area outside of the bank’s defined assessment area.

The components of each test are discussed in the following sections. All conclusions also take into consideration relevant performance context factors.

Loan-To-Deposit Ratio

A bank's loan-to-deposit ratio is one measure of its lending relative to its capacity. The bank's loan-to-deposit ratio as of March 31, 2012, equaled 84.8% and averaged 82.5% for the seven-quarter period ending March 31, 2012. The quarterly average loan-to-deposit ratios for all banks headquartered in metropolitan areas of Maryland and of similar asset size to BankAnnapolis ranged from 83.0% to 87.5% for a six-quarter period ending December 31, 2011. Since June 30, 2010, the bank's assets, loans, and deposits have increased by 2.0%, 9.1%, and 1.8%, respectively. The bank's level of lending activity as measured by its loan-to-deposit ratio is considered reasonable given its size, financial condition, and assessment area credit needs.

Lending In Assessment Area

The bank’s HMDA lending activity during 2010 and 2011, as well as all small business loans extended in 2011 are represented in the following table that depicts lending inside and outside of the bank’s assessment area. The data does not include large commercial loans (loan amounts in excess of $1 million) or any other loan type not specified.

Comparison of Credit Extended Inside and Outside of Assessment Area(s)

Loan Type	Inside				Outside			
	#	%	$(000)	%	#	%	$(000)	%
Home Purchase	25	78.1	10,109	81.8	7	21.9	2,256	18.2
Home Improvement	12	100.0	3,452	100.0	0	0.0	0	0.0
Refinancing	64	78.0	19,248	84.1	18	22.0	3,635	15.9
Total HMDA related	***101***	***80.2***	***32,809***	***84.8***	***25***	***19.8***	***5,891***	***15.2***
Small Business*	56	80.0	11,638	76.1	14	20.0	3,646	23.9
TOTAL LOANS	***157***	***80.1***	***44,447***	***82.3***	***39***	***19.9***	***9,537***	***17.7***

**The number and dollar amount of loans reflects a sample of such loans originated during the evaluation period and does not reflect loan data collected or reported by the institution.*

As indicated in the above table, a substantial majority of the number (80.1%) and the dollar amount (82.3%) of the loans considered in the evaluation were provided to borrowers located in the bank's assessment area. Overall, the institution's level of lending within the assessment area is considered highly responsive to community credit needs.

Lending to Borrowers of Different Incomes and To Businesses of Different Sizes

Overall, and for each product, the bank's lending to borrowers of different incomes and businesses of different sizes is considered reasonable.

Distribution of HMDA Loans by Income Level of Borrower

Assessment Area: Baltimore-Towson, MD MSA (2010)								
Income Categories	Bank				Aggregate			
	#	%	$(000s)	% $	#	%	$(000s)	% $
	HMDA Totals							
Low	1	1.4	212	1.0	1,433	5.4	209,701	2.8
Moderate	12	16.9	2,487	11.5	4,786	18.1	949,635	12.7
Middle	17	23.9	3,482	16.1	6,485	24.5	1,600,315	21.4
Upper	41	57.7	15,408	71.4	13,772	52.0	4,705,808	63.0
Total	***71***	***100.0***	***21,589***	***100.0***	***26,476***	***100.0***	***7,465,459***	***100.0***
Unknown	*3*		*1,044*		*5,976*		*1,778,833*	

Percentage's (%) are calculated on all loans where incomes are known

When considering the bank's 2010 performance overall, 1.4% of the bank's HMDA loans were made to low-income borrowers. This level of lending was less than the aggregate lending level to low-income borrowers (5.4%) and the percentage of low-income families within the assessment area (12.7%). Although the bank's lending to moderate-income borrowers (16.9%) was slightly lower than aggregate lending level (18.1%), the bank's level of moderate-income lending was greater than the percentage of moderate-income families within the assessment area (15.7%). Overall, the bank's 2010 performance is considered reasonable given the greater volume of lending in moderate-income tracts.

Of the bank's 27 originated HMDA loans in 2011, none were to low-income borrowers, and two (7.4%) were to moderate-income borrowers. This level of lending is considered poor. As previously mentioned, greater weight is given to the bank's 2010 HMDA lending performance given the significantly larger dollar volume of lending associated with that year. When considering these factors, as well as area demographics and aggregate data as proxies for demand, overall, the bank's level of lending to borrowers of different incomes is considered reasonable.

Distribution of Lending by Loan Amount and Size of Business

Assessment Area: Baltimore-Towson, MD MSA (2011)								
	Bank				**Aggregate***			
by Revenue	**#**	**%**	**$(000s)**	**% $**	**#**	**%**	**$(000s)**	**% $**
$1 Million or Less	26	46.4	5,457	46.9	NA	NA	NA	NA
Over $1 Million	19	33.9	4,393	37.7	NA	NA	NA	NA
Unknown	*11*	*19.6*	*1,788*	*15.4*	NA	NA	NA	NA
by Loan Size								
$100,000 or less	33	58.9	1,479	12.7	NA	NA	NA	NA
$100,001-$250,000	7	12.5	1,382	11.9	NA	NA	NA	NA
$250,001-$1 Million	16	28.6	8,777	75.4	NA	NA	NA	NA
Total	***56***	***100.0***	***11,638***	***100.0***	***NA***	***NA***	***NA***	***NA***

** No data is available for Aggregate loans with Revenues over $1 million and those with Unknown revenues*

D&B data indicates that 89.7% of all local businesses have revenues that do not exceed $1 million per year. Given that 2011 aggregate small business data is not yet available, 2010 aggregate small business data was considered as an element of performance context in evaluating the bank's performance. 2010 aggregate lending data shows that 29.3% of reported small business loans were to businesses having revenues of $1 million or less. The remaining loans were made to businesses with revenues exceeding $1 million or that had unknown revenues. During 2010, a group of traditional bank lenders, which excludes credit card specialty lenders, originated 48.6% of reported small business loans to businesses with annual revenues of $1 million or less. Overall, 46.4% of BA's small business loans were to businesses with annual revenues of $1 million or less. The bank's level of lending is considered reasonable, when considering demographic and performance context factors.

Geographic Distribution of Loans

As previously mentioned, there are no low-income and seven moderate-income census tracts in the bank's assessment area. Overall, and for both HMDA and small business lending, the bank's geographic distribution is considered poor, as the bank did not originate any loans within the moderate-income tracts in its assessment area.

Distribution of HMDA Loans by Income Level of Census Tract

Assessment Area: Baltimore-Towson, MD MSA (2010)								
Income Categories	**Bank**				**Aggregate**			
	#	**%**	**$(000s)**	**% $**	**#**	**%**	**$(000s)**	**% $**
	(18)			**Home Purchase**		**(9,349)**		
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	0	0.0	0	0.0	202	2.2	39,631	1.4
Middle	7	38.9	2,340	35.8	4,481	47.9	1,174,770	42.4
Upper	11	61.1	4,191	64.2	4,666	49.9	1,556,060	56.2
	(49)			**Refinance**		**(22,193)**		
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	0	0.0	0	0.0	328	1.5	57,703	0.9
Middle	10	20.4	2,756	19.6	8,265	37.2	2,092,039	33.2
Upper	39	79.6	11,282	80.4	13,600	61.3	4,148,547	65.9
	(7)			**Home Improvement**		**(898)**		
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	0	0.0	0	0.0	11	1.2	992	0.8
Middle	2	28.6	323	15.6	397	44.2	45,359	35.1
Upper	5	71.4	1,741	84.4	490	54.6	82,983	64.2
	(0)			**Multi-Family**		**(12)**		
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	0	0.0	0	0.0	6	50.0	19,735	42.7
Upper	0	0.0	0	0.0	6	50.0	26,473	57.3
				HMDA Totals				
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	0	0.0	0	0.0	541	1.7	98,326	1.1
Middle	19	25.7	5,419	23.9	13,149	40.5	3,331,903	36.0
Upper	55	74.3	17,214	76.1	18,762	57.8	5,814,063	62.9
*NA**	0	0.0	0	0.0	0	0.0	0	0.0
Total	***74***	***100.0***	***22,633***	***100.0***	***32,452***	***100.0***	***9,244,292***	***100.0***

**NA-Tracts without household or family income as applicable*
( ) represents the total number of bank loans for the specific Loan Purpose
Loans where the geographic location is unknown are excluded from this table.

Within the assessment area, only 2.4% of owner-occupied housing units are located in moderate-income tracts. In 2010, the bank did not originate any loans to individuals located in moderate tracts, which also lags the aggregate lending level (1.7%) to borrowers in such tracts. The bank's performance in 2011 is substantially similar as the bank did not make any loans to borrowers located in moderate tracts. While demographic factors such as median housing value and the availability of owner-occupied units in the assessment area may limit lending opportunities in the market, the bank's lack of lending in moderate-income census tracts is nonetheless considered poor.

Distribution of Small Business Loans by Income Level of Census Tract

Assessment Area: Baltimore-Towson, MD MSA (2011)								
Income Categories	**Bank**				**Aggregate**			
	#	**%**	**$(000s)**	**% $**	**#**	**%**	**$(000s)**	**% $**
Low	NA	NA	NA	NA	NA	NA	NA	NA
Moderate	0	0.0	0	0.0	NA	NA	NA	NA
Middle	24	42.9	5,540	47.6	NA	NA	NA	NA
Upper	32	57.1	6,098	52.4	NA	NA	NA	NA
*NA**	*0*	*0.0*	*0*	*0.0*	*NA*	*NA*	*NA*	*NA*
Total	***56***	***100.0***	***11,638***	***100.0***	***NA***	***NA***	***NA***	***NA***

**NA-Tracts without household or family income as applicable*
Loans where the geographic location is unknown are excluded from this table.

D&B data indicates that only 2% of all area businesses are located in moderate-income tracts. As shown in the preceding table, the bank did not originate any small business loans during 2011 in moderate-income tracts. As previously mentioned, 2011 aggregate data is not yet available; therefore, 2010 aggregate lending data were considered as an element of performance context in evaluating the bank's lending performance. These data indicate that only 1.4% of aggregate small business loans were originated in moderate-income tracts. Despite the limited demand, as indicated by demographic and other performance context data, the bank's lack of lending in moderate-income tracts is nonetheless considered poor.

Community Development Loans, Investments, and Services

Information from individuals knowledgeable of the local market area and review of the performance evaluations of other financial institutions having a local presence indicate that a variety of community development opportunities are available within this assessment area. Given its current loan-to-deposit ratio (84.8%), the bank's capacity for additional lending, including community development lending, is not constrained. Additionally, the bank does not face any constraints in providing community development services or making qualified investments.

The bank has qualified community development investments totaling approximately $2.1 million. Specifically, the bank's investments include the following:

- A $1.1 million investment in Maryland Community Development Administration bonds. These bonds provide financing for affordable housing properties and projects within the state.

- A $670,000 investment in the CRA Investment Fund. The bank's investment represents a portion of a Fannie Mae pool of funds that financed a multi-family property in Annapolis for low-income residents.

- A $363,000 investment in a Fannie Mae pool of real estate loans for low- and moderate-income borrowers in the bank's assessment area.

- The bank has also made qualified donations, totaling $12,000 to local community organizations which provide services to low- and moderate-income individuals.

The bank also renewed a revolving line of credit in the amount of $200,000 to a local economic development organization whose primary purpose is to provide micro-enterprise loans to small businesses within the bank's assessment area.

The bank and its employees volunteer their time and provide financial expertise to the following organizations that provide community development services targeted to area low- and moderate-income residents and affordable housing:

- A bank officer serves on the Minority Businesses Enterprise Committee for Anne Arundel County. The committee's focus includes providing assistance to small, minority, and women-owned businesses within the area.

- A bank officer serves as Vice Chair of the Board of Directors of Entrepreneur's Exchange, Inc., a nonprofit organization supporting growth of small businesses in Annapolis.

Additionally, the bank participates in the Interest on Lawyers Trust Accounts (IOLTA) program which is administered by the Maryland Legal Services Corporation (MLSC). The program utilizes interest from lawyer trust accounts to provide civil legal aid to low- and moderate-income citizens.

Considering performance context, the bank has adequately addressed the community development needs of its assessment area and, therefore, is eligible to receive consideration for certain other community development activities, even if they will not benefit the institution's assessment area. In particular, consideration is given to the origination of a $3.9 million community development loan to an organization that redevelops and refurbishes affordable housing units in Baltimore City. This activity benefits geographies or individuals located somewhere within the broader statewide or regional area that includes the institution's assessment area. While Baltimore City is outside of the bank's defined assessment area, this type of community development lending demonstrates the bank's commitment to meeting community development needs of low- and moderate-income individuals.

Overall, the bank has demonstrated an adequate level of responsiveness to local community development needs through its lending activities and investments that facilitate community development, and its community development performance is considered satisfactory

Fair Lending or Other Illegal Credit Practices Review

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of $1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

(i) Low- or moderate-income geographies;

(ii) Designated disaster areas; or

(iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-

a. Rates of poverty, unemployment, and population loss; or
b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance under the Lending and Community Development Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the Lending and Community Development Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units**.**

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of $1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.