

PUBLIC DISCLOSURE

June 18, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Bank of Delmarva
8810**

**910 Norman Eskridge Highway
Seaford, Delaware 19973**

**Federal Deposit Insurance Corporation
20 Exchange Place
New York, New York 10005**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

- The distribution of borrowers reflects an excellent penetration among businesses of different sizes and borrowers of different income levels.
- The bank originated an excellent level of community development loans that provided for job retention/creation and infrastructure needs in the assessment area.
- The institution has an excellent level of community development services within the assessment area.
- The bank's average net loan-to-deposit ratio of 87.8 percent is reasonable.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.
- A majority of loans were made inside the assessment area during the evaluation period.
- The bank has an adequate community development investment record in its assessment area and the broader, regional area that includes the assessment area.
- There were no complaints received between evaluations regarding the bank's performance in meeting assessment area credit needs.

SCOPE OF EXAMINATION

The institution's performance was reviewed on-site using Intermediate Small Institution examination procedures of the following loan types: home mortgage loans reported pursuant to the Home Mortgage Disclosure Act (HMDA) and commercial real estate loans. The time period reviewed for home mortgage and commercial real estate loans made was from January 1, 2005 to December 31, 2006. Given the bank's business strategy and composition of its loan portfolio, commercial real estate loans were weighted more heavily in the evaluation. Consumer and small farm loans were not considered due to the limited number and dollar volume of these loan types.

DESCRIPTION OF INSTITUTION

The Bank of Delmarva (Delmarva) is a Delaware state-chartered bank headquartered in Seaford, Delaware (DE) with offices in Sussex County, DE and Wicomico County, Maryland (MD). Delmarva is a full-service commercial bank operating nine full service banking offices; five branches are located in Wicomico County, MD and four branches are in Sussex County, DE. Seven offices are located in middle-income census tracts, while there is one in moderate- and upper-income census tracts, respectively. The bank also operates one limited-service office in an upper-income census tract in Wicomico County, MD. The bank is wholly-owned by Delmar Bancorp, Delmar, MD. Delmar Bancorp's consolidated financial statements as of March 31, 2007, show total assets of \$325.0 million. Delmar Bancorp also wholly-owns Hanna, Kremer, & Tilghman Insurance, Inc. Delmarva has one wholly-owned subsidiary, Delmar Insurance Agency, Inc., which has little to no activity.

As of March 31, 2007, the institution had total assets of \$324.1 million. Loans and deposits totaled \$247.8 million and \$267.1 million, respectively. Between evaluations, the bank's assets grew by 34.3 percent due to strong commercial loan growth. Delmarva offers a full line of loan and deposit products, as well as nondeposit products through a third party provider. However, the bank is not a traditional home mortgage lender. The majority of home mortgage loans that the bank makes are adjustable rate mortgages, while the majority of long-term, fixed-rate mortgage requests are referred to a third-party mortgage broker. The bank primarily makes loans secured by real estate, with the focus on commercial real estate lending. Commercial real estate loans account for almost 36 percent of loans outstanding, while home mortgage loans account for over 17 percent. **Table 1** details the loan distribution as of March 31, 2007.

Table 1 – Loan Distribution as of March 31, 2007

Intermediate Small Institution Performance Evaluation

Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	71,350	28.8
Secured by Farmland	8,778	3.5
1-4 Family Residential	43,300	17.5
Multi-Family (5 or more) Residential	4,050	1.6
Secured by Nonfarm Nonresidential	88,507	35.7
Total Real Estate Loans	215,985	87.1
Commercial and Industrial	26,058	10.5
Consumer	4,014	1.6
Other	1,775	0.8
Less: Unearned Income	0	0.0
Total Loans	247,832	100

Source: Report of Condition

The bank maintains a proactive approach to managing its CRA performance. A CRA Committee meets regularly and the bank offers flexible loan programs to customers. For example, flexible underwriting and financing is available for low- and moderate-income borrowers purchasing homes through Salisbury Neighborhood Housing Services. Delmarva is also an approved Small Business Administration, Maryland Industrial Development Finance Authority, and United States Department of Agriculture lender to accommodate commercial lending needs.

Delmarva received a rating of “Outstanding” at the previous FDIC CRA evaluation on July 26, 2004; Small Bank CRA examination procedures were utilized. Since the previous CRA evaluation, the bank’s assets have exceeded the small bank threshold; therefore, Intermediate Small Institution examination procedures were utilized at the current evaluation. The evaluation reviewed the institution’s record of meeting the credit needs of its community, including low- and moderate-income borrowers and neighborhoods, consistent with safe and sound operation of the bank. Delmarva has the financial resources and capacity to effectively meet the credit needs of its assessment area. There are no legal or financial impediments that would prevent the bank from helping to meet assessment area needs.

Community Contact

A community contact with an economic development organization in Salisbury, MD was conducted in conjunction with the CRA evaluation. The contact indicated that Wicomico County, MD consists primarily of middle-income census tracts, with low- and moderate-income census tracts located in or near Salisbury. The West Side neighborhood and Church Street district were identified as distressed areas. The contact also indicated there are infrastructure needs, to be built or improved, to facilitate affordable housing and economic development within the region. Lastly, the contact indicated that general banking and credit needs are being met by area institutions.

DESCRIPTION OF ASSESSMENT AREA

Delmarva’s assessment area consists of Sussex County, DE and Wicomico County, MD. Wicomico County, MD is located within the Salisbury, MD Metropolitan Statistical Area (MSA) #41540 and Sussex County, DE is located in a nonmetropolitan area. The assessment area is in conformance with the CRA regulation and does not arbitrarily exclude low- and moderate-income areas.

Based on 2000 U.S. Census data, the assessment area is comprised of 53 census tracts: 1 (1.9 percent) is low-income, 3 (5.7 percent) are moderate-, 43 (81.1 percent) are middle-, and 6 (11.3 percent) are upper-income. Sussex County, DE is eligible for assistance from the Economic Development Administration, a federal agency that provides grant assistance to economically distressed communities based on per capita income and/or unemployment rates. Wicomico County, MD has two state enterprise zones, one in Salisbury and one in Fruitland. **Table 2** details the Department of Housing and Urban Development (HUD) adjusted median family incomes for 2005 and 2006.

Table 2 – HUD-adjusted Median Family Incomes		
Year	Salisbury, MD MSA 41540	Non-metropolitan Sussex County, DE
2005	\$54,850	\$54,900
2006	\$55,300	\$54,300

Source: HUD

Population

Based upon 2000 U. S. Census data, the assessment area’s population is 241,282. Of this amount, there are 65,983 families: 12,240 (18.5 percent) qualify as low-income, 12,392 (18.8 percent) as moderate-income, 15,365 (23.3 percent) as middle-income, and 25,986 (39.4 percent) as upper-income.

Housing

Based upon 2000 U. S. Census data, the assessment area has 127,471 housing units: 56.4 percent

are owner-occupied, 18.0 percent are rental units, and 25.6 are vacant. The high percentage of vacant and rental housing units in the assessment area is due to the large number of secondary/vacation homes located at or within close proximity to Atlantic Ocean resort communities such as Lewes, Rehoboth and Dewey Beaches, DE and Ocean City, MD. By census tract income level, 0.1, 2.9, 83.5, and 13.5 percent of owner-occupied housing units are located in low-, moderate-, middle-, and upper-income census tracts, respectively. The low percentage of owner-occupied units in low- and moderate-income census tracts indicates limited opportunity for home mortgage lending in those tracts.

Commercial

According to information available from Dun & Bradstreet for 2006, there are 17,767 non-farm and 812 farm establishments within the assessment area. The majority of businesses (64.5 percent) reported gross annual incomes of \$1 million or less; 0.6, 3.5, 75.6, and 20.3 percent are located in low-, moderate-, middle-, and upper-income census tracts, respectively. Business demographics indicate limited opportunities for lending in low- and moderate-income census tracts due to the small percentage of businesses located in those tracts. The area's two largest industries are services and retail trade businesses. In addition to having a high percentage of lower-paying service jobs, poultry, seafood processing, and tourism industries are among the area's largest employers in the bank's assessment area.

Competition

Competition within the assessment area for loans and deposits is strong. In addition to several community banks operating within the bank's assessment area, there are large regional commercial banks, such as PNC Bank, NA; Wilmington Trust Company; and Citizens Bank. The bank's strongest community competitors are County Bank, Hebron Savings Bank, and Farmers Bank of Willards. Almost 500 institutions were identified as originating and reporting loans pursuant to HMDA in 2005. Delmarva ranked 67th with a market share of .35 percent by number of home mortgage loans originated. Additionally, several mortgage companies, finance corporations, and credit unions that operate in the area.

Delaware Assessment Area

Based upon 2000 U.S. Census data, the DE assessment area is comprised of 36 census tracts: 33 (91.7 percent) are middle-income and 3 (8.3 percent) are upper-income. There are no low- or moderate-income census tracts.

Population

Based upon 2000 U. S. Census data, the assessment area's population is 156,638. Of this

amount there are 44,090 families: 8,000 (18.1 percent) qualify as low-income, 8,611 (19.5 percent) moderate-income, 10,575 (24.0 percent) middle-income, and 16,904 (38.3 percent) as upper-income.

Housing

Based upon 2000 U. S. Census data, the assessment area has 93,070 housing units. Of the total units, 54.3 percent are owner-occupied, 13.0 percent are rental units, and 32.8 percent are vacant. As mentioned previously, the high percentage of vacant housing units in the DE assessment area is due to the large number of secondary/vacation homes located at or within close proximity to Atlantic Ocean resort communities such as Lewes, Rehoboth Beach and Dewey Beach. By census tract income level, 90.2 and 9.8 percent of owner-occupied housing units are located in middle- and upper-income census tracts, respectively.

Commercial

According to information available from Dun & Bradstreet for 2006, there are 11,833 non-farm and 537 farm establishments within the assessment area. The majority of businesses (64.8 percent) reported gross annual incomes of \$1 million or less; 81.9 and 18.1 percent are located in middle- and upper-income census tracts, respectively. The area's two largest industries are service and retail trade businesses. While tourism is responsible for employing a large number of residents in Sussex County, the largest employers are Perdue Farms, Inc. and Mountaire Farms, Inc. According to the United States Department of Agriculture, Sussex County ranks as the number one broiler chicken producer in the nation.

Maryland Assessment Area

Based upon 2000 U.S. Census data, the MD assessment area is comprised of 17 census tracts: 1 (5.8 percent) is low-income, 3 (17.7 percent) moderate-income, 10 (58.8 percent) middle-income, and 3 (17.7 percent) upper-income.

Population

Based upon 2000 U. S. Census data, the assessment area's population is 84,644. Of this amount, there are 21,893 families: 4,240 (19.4 percent) qualify as low-income, 3,781 (17.2 percent) as moderate-income, 4,790 (21.9 percent) as middle-income, and 9,082 (41.5 percent) as upper-income.

Housing

Based upon 2000 U. S. Census data, the assessment area has 34,401 housing units: 62.3 percent

are owner-occupied, 31.4 percent are rental units, and 6.3 percent are vacant. The high percentage of rental units is due to a large number of rental units located in the resort area of Ocean City, MD. By census tract income level, 0.3, 9.8, 67.7, and 22.2 percent of owner-occupied housing units are located in low-, moderate-, middle-, and upper-income census tracts, respectively. The low percentage of owner-occupied units in low- and moderate-income census tracts indicates a limited opportunity for home mortgage lending in those tracts.

Commercial

According to information available from Dun & Bradstreet for 2006, there are 5,934 non-farm and 275 farm establishments within the assessment area. The majority of businesses (63.9 percent) reported gross annual incomes of \$1 million or less; 1.7, 10.6, 63.1, and 24.6 percent are located in low-, moderate-, middle-, and upper-income census tracts, respectively. Business demographics indicate limited opportunities for lending in low- and moderate-income census tracts due to the small percentage of businesses located in these tracts. The area's two largest industries are service and retail trade businesses. The largest employers in Wicomico County are Peninsula Regional Medical Center, Perdue Farms, Inc., and Salisbury University.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Loan-to-Deposit Ratio

The net loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The average net loan-to-deposit ratio was 87.8 percent for the 11 quarters since the last evaluation. The bank's March 31, 2007 net loan-to-deposit ratio of 91.6 percent was above the peer net loan-to-deposit ratio of 86.6 percent for the same period. Delmarva's standard peer group consisted of all FDIC insured savings banks having assets between \$300 million and \$1.0 billion.

Delmarva's average net loan-to-deposit ratio was compared to the ratios of County Bank and Hebron Savings Bank. These banks were considered similar because of asset size, product offerings, and number of offices within the assessment area. The average net loan-to-deposit ratio for County Bank was 95.0 percent, while the average net loan-to-deposit ratio for Hebron Savings Bank was 97.2 percent. While Delmarva's average net loan-to-deposit ratio is slightly below County Bank and Hebron Savings Bank, the ratio suggests that the bank is serving the credit needs of its community.

Assessment Area Concentration

The bank's lending performance for this criterion is evaluated based on the number and amount of loans of each type extended inside the assessment area. Overall, a majority of commercial

real estate and home mortgage loans by number and dollar volume were made inside the assessment area. Specifically, 86.0 percent by number and 76.1 percent by dollar volume of commercial real estate and home mortgage loans were originated within the assessment area. The lending distribution is shown in **Table 3**.

Table 3 – Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Real Estate										
2005	37	82.2	8	17.8	45	19,122	67.5	9,220	32.5	28,342
2006	33	82.5	7	17.5	40	14,866	83.8	2,869	16.2	17,735
Subtotal	70	82.4	15	17.6	85	33,988	73.8	12,089	26.2	46,077
Home Mortgage										
2005	65	86.7	10	13.3	75	11,553	86.7	1,768	13.3	13,321
2006	56	90.3	6	9.7	62	7,589	72.8	2,830	27.2	10,419
Subtotal	121	88.3	16	11.7	137	19,142	80.6	4,598	19.4	23,740
Total	191	86.0	31	14.0	222	53,130	76.1	16,687	23.9	69,817

Source: Bank records, HMDA Disclosure (2005), and HMDA-LAR (2006)

Overall, a decreasing trend is noted by number and dollar volume of commercial real estate and home mortgage loans. Management attributed the decreasing trend to an economic slow down and lack of demand for commercial and home mortgage loans. Management also noted that increasing interest rates are negatively affecting real estate sales and the refinancing of existing loans. For 2007, management indicated that home mortgage loan demand has been concentrated in home equity loans and home equity lines of credit.

Borrower Distribution

The distribution of borrowers reflects an excellent penetration among businesses of different sizes and borrowers of different income levels. This criterion evaluates the bank's performance in addressing the credit needs of businesses of various sizes and low-, moderate-, middle-, and

upper-income borrowers. Only loans extended inside the assessment area are included. Distribution of the dollar volume of loans for 2005 and 2006 reflects similar results.

Commercial Real Estate

Table 4 analyzes commercial real estate loans by gross annual revenues and includes the percentage of businesses with gross annual revenues under and over \$1 million within the assessment area. The bank’s performance in 2005 and 2006 exceeded demographic data and is consistent with the bank’s business strategy of lending to small businesses. Dun and Bradstreet reports that 64.5 percent of businesses in the assessment area have gross annual revenues of \$1 million or less, indicating ample lending opportunities to small businesses. In 2005 and 2006, the bank originated 83.8 percent and 75.8 percent, respectively by number of loans to businesses reporting gross annual revenues of \$1 million or less.

Table 4 - Distribution of Commercial Real Estate Loans by Gross Annual Revenues of Business							
Gross Annual Revenues (000s)	Demographic Data (% of #)	2005		2006		Total	
		#	%	#	%	#	%
≤ \$1,000	64.5	31	83.8	25	75.8	56	80.0
> \$1,000	4.7	6	16.2	8	24.2	14	20.0
Unknown	30.8	0	0.0	0	0.0	0	0.0
Total	100	37	100	33	100	70	100

Source: Bank Records and Dun and Bradstreet (2006)

Delmarva’s commercial real estate lending activity is augmented by flexible lending programs. The bank is an approved lender for the Small Business Administration (SBA), Maryland Industrial Development Finance Authority (MIDFA), and United States Department of Agriculture (USDA). Between evaluations, the made three MIDFA loans totaling \$2.6 million, one SBA loan for \$450,000, and one USDA loan for \$1.8 million.

Home Mortgage Loans

Table 5 details the distribution of home mortgage loans within the assessment area by borrower income. For comparative purposes, the percentage of families within the assessment area by income level according to 2000 U.S. Census data and the percentage of home mortgage loans extended by all lenders within the assessment area during 2005, the most recent year for which

aggregate data is available, are also shown. An analysis by dollar volume yielded similar results.

Table 5 - Distribution of Home Mortgage Loans by Borrower Income								
Borrower Income Level	% of Total Families	Aggregate Lending Data (% of #)	2005		2006		Total	
			#	%	#	%	#	%
Low	18.5	4.0	5	7.7	5	8.9	10	8.3
Moderate	18.8	13.0	10	15.4	8	14.3	18	14.9
Middle	23.3	20.0	13	20.0	12	21.4	25	20.6
Upper	39.4	47.0	32	49.2	28	50.0	60	49.6
NA	0.0	16.0	5	7.7	3	5.4	8	6.6
Total	100	100	65	100	56	100	121	100

Source: 2000 U.S. Census, HMDA Disclosure (2005), HMDA-LAR (2006), and HMDA Aggregate Data (2005)

Overall, the bank achieved an excellent penetration among low- and moderate-income borrowers within the assessment area. In 2005, the bank surpassed aggregate lenders in originating loans to low- and moderate-income borrowers. During 2006, the bank exhibited comparable performance.

Delmarva’s home mortgage lending is augmented by the following flexible lending programs:

- The institution originates loans to borrowers that attend homeownership programs sponsored by the Salisbury Neighborhood Housing Services (SNHS). The loans are available to individuals purchasing homes in areas designated by SNHS: Camden, West Side and Church Street Districts in Wicomico County, MD. The loans are originated at below-market interest rates set by SNHS and underwritten using flexible criteria. The flexible criteria includes higher loan-to-value and debt-to-income ratios, blemished credit history, and waived settlement fees. SNHS also offers second loans at below-market rates for closing costs or home rehabilitation. The second loans are forgiven after a set period of time. Between evaluations, the bank extended 16 loans totaling \$1.4 million. The targeted areas by SNHS have been particularly effective in creating homeownership opportunities in these transitional neighborhoods.

- Delmarva has a referral relationship with a third-party mortgage broker, which enables the bank to provide long-term, fixed-rate mortgage loans to its customers. Financing of up to 95 percent of value is available. Between evaluations, the bank provided six referrals to the third-party mortgage broker.

Geographic Distribution

The institution was analyzed based on the geographic distribution of commercial real estate and home mortgage loans within the assessment area. This criterion assesses the bank's performance in addressing the credit needs in low-, moderate-, middle- and upper-income census tracts. Overall, Delmarva has achieved a reasonable dispersion of commercial real estate and home mortgage loans within the assessment area. As previously mentioned, Delmarva's assessment area contains only one low-income census tract and three moderate-income census tracts. Additionally, the bank has one branch located in a moderate-income census tract in Salisbury, MD. Distribution of the dollar volume of loans for 2005 and 2006 reflects similar results.

Commercial Real Estate

Table 6 details the distribution of the bank's commercial real estate loans within the assessment area by census tract income level for 2005 and 2006. Overall, the bank's lending performance in the assessment area is considered reasonable and comparable to demographics.

Table 6 - Distribution of Commercial Real Estate Loans by Income Category of the Census Tract

Intermediate Small Institution Performance Evaluation

Census Tract Income Level	% of Businesses	2005		2006		Total	
		#	%	#	%	#	%
Low	0.6	1	2.7	0	0.0	1	1.4
Moderate	3.5	0	0.0	4	12.1	4	5.7
Middle	75.6	29	78.4	23	69.7	52	74.3
Upper	20.3	7	18.9	6	18.2	13	18.6
Total	100	37	100	33	100	70	100

Source: Bank records and Dun & Bradstreet (2006)

In 2005, Delmarva originated one commercial real estate loan in a low-income census tract and none in moderate-income census tracts. However, less than one percent of the assessment area businesses are located in the single low-income census tract. In 2006, the bank did not originate any commercial real estate loans in the low-income census tract; however, four commercial real estate loans were originated in the moderate-income census tracts. The bank’s performance is considered reasonable given the composition of the assessment area and the minimal number of businesses located in the low- and moderate-income census tracts, respectively.

Home Mortgage Loans

Table 7 details the geographic distribution of home mortgage loans within the assessment area. Overall, the bank’s performance is considered excellent for the evaluation period. For comparative purposes, the percentage of owner-occupied housing units in the geographies and aggregate HMDA lending data for 2005 is also displayed. As previously mentioned, the low percentage of owner-occupied units in the low- and moderate-income census tracts indicates limited opportunities for home mortgage lending in those tracts.

Table 7 - Distribution of Home Mortgage Loans by Income Category of the Census Tract

Intermediate Small Institution Performance Evaluation

Census Tract Income Level	% of Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)	2005		2006		Total	
			#	%	#	%	#	%
Low	0.1	0.1	1	1.5	0	0.0	1	0.8
Moderate	2.9	2.6	5	7.7	5	8.9	10	8.3
Middle	83.5	77.1	55	84.6	47	83.9	102	84.3
Upper	13.5	20.2	4	6.2	4	7.2	8	6.6
Total	100	100	65	100	56	100	121	100

Source: 2000 U.S. Census, HMDA Disclosure (2005), HMDA-LAR (2006), and HMDA Aggregate Data (2005)

In 2005, the percentage of bank loans in low- and moderate-income geographies exceeded aggregate lending and the percentage of owner-occupied housing units in those areas. In 2006, the bank did not extend any home mortgage loans located in the low-income geography; however, the percentage of bank loans made in moderate-income geographies exceeded the percentage of owner-occupied housing units in those areas. As previously mentioned, the bank originates SNHS loans, which augments the bank’s lending performance in the moderate-income geographies.

Response to Complaints

There were no complaints received by the bank or FDIC between evaluations regarding the bank’s performance in meeting assessment area credit needs.

COMMUNITY DEVELOPMENT TEST

Under the community development test, consideration is given to the following, taking into account, the institution's capacity and constraints and other information obtained through the performance context review: (1) the number and amount of community development loans and qualified investments, (2) the extent to which the institution provides community development services, and (3) the responsiveness to the opportunities for community development lending, qualified investments, and community development services.

As stated previously, the bank is subject to intense competition within the assessment area from numerous commercial and savings banks, mortgage and finance companies, and other financial institutions. Many of these institutions have more resources, both monetary and personnel, than Delmarva to assist in community development initiatives.

Community Development Lending

Delmarva made an excellent number and dollar amount of community development loans during the review period given the bank's resources and capacity. During the review period, the bank made nine qualified community development loans totaling \$6.4 million within the assessment area. Of the nine loans, five for \$4.3 million were extended in MD, while four for \$2.1 million were extended in DE. The following is a discussion of the loans which exhibit the bank's responsiveness to opportunities for community development lending:

- Delmarva renewed two loans totaling \$1.8 million and renewed and increased another loan to \$800,000 between CRA evaluations. The total of \$2.6 million is insured by the Maryland Industrial Development Finance Authority (MIDFA), an economic development catalyst. The loans supported the expansion of a seafood processing company located in a moderate-income area and provided working capital. Proceeds were used to expand the business into new markets and diversify product lines creating more year round employee positions. These loans benefited the MD assessment area.
- The bank made three loans totaling \$2.3 million to local governments in Wicomico County, MD and Sussex County, DE to build or improve water and sewer infrastructure. Due to increasing population, the assessment area has had increasing infrastructure needs. Special financing for improving and providing infrastructure needs has long been identified by area nonprofit and community development organizations as a necessary cornerstone and link to providing affordable housing and economic development. Specifically, Delmarva is the lead participant in a refinance of a loan to the Town of Laurel, Sussex County, DE. The bank's portion was \$708,000. Delmarva originated a \$1 million loan to the Town of Dagsboro, Sussex County, DE. This loan was for a new water distribution system, including service lines, water meters, appurtenances, and a chlorination system. The bank originated a \$560,000 loan to the Town of Pittsville, Wicomico County, MD to refinance water and sewer debt. Pittsville and surrounding communities have had increasing residential growth over the past few years.

Infrastructure improvements will facilitate future residential and economic growth in the area. Two loans benefited the DE assessment area and one loan benefited the MD assessment area.

- The bank made a \$1.2 million construction loan to a church, which provides a soup kitchen, homeless shelter, and other services to low- and moderate-income individuals and families. This loan benefited the MD assessment area.
- Delmarva made two loans totaling \$355,000 for multifamily housing. A \$175,000 loan to purchase a 5-unit multifamily apartment building in Laurel, DE. The apartment rents are below market levels and benefit low- and moderate-income individuals and families. The second loan was a \$180,000 loan to purchase a 5-unit, 9-room multifamily apartment building in Seaford, DE. The apartment building provides transitional housing for the homeless. Both loans benefited the DE assessment area.

Community Development Investments

Delmarva has an adequate amount of community development investments given the opportunities, resources, and capacity of the bank. Since the last evaluation, the bank has made \$137,552 in qualified investments and donations in its assessment area and the broader Mid-Atlantic regional area that includes its assessment area. As of March 31, 2007, the bank's qualified investments represent 0.04 percent of total assets and 0.27 percent of total securities. The following is a discussion:

- The bank renewed a \$104,922 certificate of deposit with a certified community development financial institution located in Washington DC. The financial institution's purpose is to promote economic revitalization and community development in areas underserved by traditional financial institutions. This regional investment indirectly enhances the availability of credit in distressed and urban areas in the Washington DC area.
- The bank made \$32,630 in qualifying donations to local community organizations, such as Community Foundation of the Eastern Shore, SNHS, Junior Achievement, Delaware Housing Coalition, and First State Community Loan Fund. The grants and donations provided for funding for affordable housing, small business development, and programs for at risk youth within the assessment area.

Community Development Services

Delmarva has an excellent level of community development services given the opportunities, resources, and capacity of the bank. The bank has appropriately assessed the needs in the assessment area and has allocated resources and activities to meet those needs. All of the community development services are to qualified organizations, accomplished in the name of Delmarva.

Retail Services

The bank operates nine full-service branches: five branches are located in Wicomico County, MD and four branches are located in Sussex County, DE. One branch is located in a moderate-income census tract, seven branches are located in middle-income census tracts, and one branch is in an upper-income census tract. One branch relocated during the evaluation period; however, remained within a middle-income census tract.

The institution's alternative delivery systems, ATMs, online, telephone, and night depository drops, are considered effective alternatives to branches in providing retail services to customers. The institution offers several free and low-cost consumer and commercial accounts: free checking to full-time students and senior citizens and a no-fee checking account for commercial customers that maintain an average balance of \$500 per month. Delmarva provides free, online banking to consumer and commercial deposit account holders or borrowers. This service allows customers 24-hour access to their loan and deposit accounts, including the availability of online bill payment.

Community Development Services

Delmarva displayed an excellent level of community development services based on the level, initiative, and responsiveness to the community development needs within the assessment area. During the evaluation period, bank directors, officers, and employees, volunteered and provided financial expertise to over 20 organizations. The following are representative examples:

The bank President and two bank Directors have provided technical assistance to the Loan Committee of **Salisbury-Wicomico Economic Development (SWED)**. SWED is a nonprofit economic development corporation that works toward strengthening the local economy through the retention, attraction, and diversification of industry and business. SWED has facilitated the creation of hundreds of jobs within the community.

A Vice President is a Board member of the **Maryland Industrial Development Financing Authority (MIDFA)**. MIDFA provides financing support for businesses located in Maryland and/or businesses that are considering moving to Maryland. Financing decisions are reviewed and approved by the Board monthly. MIDFA encourages private sector financing in economic development projects located in priority funding areas. MIDFA facilitates capital access by issuing private activity revenue bonds and can provide credit insurance in the form of a

deficiency guaranty to reduce the lender's risk.

A Vice President serves on the Board of Directors for **Salisbury Neighborhood Housing Services (SNHS)** and has conducted five homeownership counseling classes, "Are You Ready to Buy a Home?" to loan applicants. The four-week class meets once a week for three hours. The organization works to promote reinvestment and revitalization in Salisbury, MD neighborhoods, a state enterprise zone.

A Vice President served on the Family Selection Committee and acted as a Family Support Advocate for **Habitat for Humanity of Wicomico County**. Responsibilities included reviewing borrower's loan packages, developing the orientation program, screening/interviewing applicants, and providing homeownership counseling. A Family Support Advocate provides pre- and post-purchase assistance support to one family throughout the home buying process.

A Board member is a founding charter member and a bank employee serves as the Treasurer of the **Laurel Redevelopment Corporation**. The organization focuses on the revitalization of downtown Laurel by attracting new businesses, rehabilitating buildings, and providing housing and financial counseling. The newly created retail incubation initiative assists new and inexperienced entrepreneurs with small business matters. Laurel Redevelopment Corporation owns Hope Houses I & II, temporary housing that has been rehabilitated for homeless single mothers. During the construction phase, the Board member provided technical financial expertise to the organization.

A Board member is committee member for **Urban Salisbury, Inc.**, an economic development partnership organized under the auspices of the National Trust Main Street Center, a program of the National Trust for Historic Preservation and the Maryland Main Street program of the Department of Housing and Community Development. The City of Salisbury obtained a Main Street accreditation to enrich the economy and quality of life in Downtown Salisbury, a state enterprise zone. The committee's function is to keep the organization informed about local economic conditions, identify opportunities for growth, strengthen existing businesses, attract new ventures, find new uses for buildings, explore financial incentives and monitor economic performance.

Additional organizations that benefited from the bank's efforts include the following: Maryland Young Bankers, Go-Getters, Lower Eastern Shore Chapter of SCORE, Junior Achievement, Blades Economic Development Committee, Community Foundation of the Eastern Shore, and Non Traditional Housing Services Committee. Four times a year, a representative from Delmarva Investment Services Department, provides free seminars to area small businesses.

Lastly, the bank provides "no cost" space and utilities to Lend a Hand Clothing Closet at the bank's administration office in Salisbury, MD. Lend a Hand Clothing Closet provides clothing

and other essentials to individuals on public assistance or social security in Wicomico County, MD.

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. The bank's loan policies and training materials were reviewed during the evaluation to ensure sufficient policies and procedures are in place to safeguard against violations.

STATE

CRA RATING FOR DELAWARE: Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

SCOPE OF EXAMINATION

The institution's performance was reviewed on-site using Intermediate Small Institution examination procedures of the following loan types: home mortgage loans reported pursuant to HMDA and commercial real estate loans. The time period reviewed for home mortgage and commercial real estate loans made was from January 1, 2005 to December 31, 2006. Given the bank's business strategy and composition of its loan portfolio, commercial real estate loans were weighted more heavily in the evaluation. Consumer and small farm loans were not considered due to the limited number and dollar volume of these loan types.

A full-scope CRA evaluation of this assessment area was performed. Overall, of the loans extended within the combined assessment area, the bank made a majority of its commercial real estate and home mortgage loans inside the DE assessment area by both number and dollar.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN DELAWARE

A detailed description of this assessment area begins on page 4 of this performance evaluation. This assessment area is comprised of Sussex County, DE containing 36 geographies, 44,090 families, 50,505 owner-occupied housing units, 11,833 non-farm businesses and 537 farm business establishments. Of the total, this assessment area contains 67.9 percent of the total number of census tracts, 66.8 percent of the families, 70.2 percent of the owner-occupied housing units, and 66.7 percent of the non-farm businesses. The bank operates four or 44.4 percent of its branches in Sussex County, DE. The bank's strongest local-based competitor in Sussex County, DE is County Bank for commercial real estate and home mortgage loans. Over 400 institutions were identified as originating and reporting loans pursuant to HMDA in 2005. Delmarva ranked 72nd with a market share of .28 percent by number of home mortgage loans originated.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN DELAWARE

Lending Test

During the review period, 111 commercial real estate and home mortgage loans totaling \$27.1 million were made within this assessment area. This volume represents 58.1 percent by number and 51 percent by dollar volume of loans within the bank's assessment area. This proportion is consistent with the proportion of branches, census tracts, families, owner-occupied housing units, and non-farm businesses in the bank's DE assessment area. The bank's lending performance in this assessment area is satisfactory, including an adequate borrower and geographic distribution.

Community Development Test

The bank's performance under the Community Development Test is satisfactory. Four (44.4 percent) of the community development loans totaling \$2.1 million discussed in this evaluation benefited this assessment area. The bank donated \$3,230 to organizations that benefited the DE assessment area. Organizations included the First State Community Loan Fund and the Rehoboth Beach and Dewey Beach Chambers of Commerce. Retail services are consistent throughout the assessment area. Community development services that specifically benefit DE include participation in Laurel Redevelopment Authority – Hope Houses I & II, and Blades Economic Development Committee.

Refer to pages 14-18 for a complete discussion of the bank's performance under the Community Development Test.

STATE

CRA RATING FOR MARYLAND: Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

SCOPE OF EXAMINATION

The institution's performance was reviewed on-site using Intermediate Small Institution examination procedures of the following loan types: home mortgage loans reported pursuant to HMDA and commercial real estate loans. The time period reviewed for home mortgage and commercial real estate loans made was from January 1, 2005 to December 31, 2006. Given the bank's business strategy and composition of its loan portfolio, commercial real estate loans were weighted more heavily in the evaluation. Consumer and small farm loans were not considered due to the limited number and dollar volume of these loan types.

A full-scope CRA evaluation of this assessment area was performed. Overall, of the loans extended within the combined assessment area, the bank made a majority of its commercial real estate and home mortgage loans outside the MD assessment area by both number and dollar.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN MARYLAND

A detailed description of this assessment area is presented begins on page 4 of this performance evaluation. In summary, this assessment area includes Wicomico County MD, in its entirety. This assessment area contains 17 geographies, 21,893 families, 21,413 owner-occupied housing units, 5,934 non-farm businesses and 275 farm business establishments. Of the total, this assessment area contains 32.1 percent of the total number of census tracts, 33.2 percent of the families, 29.8 percent of the owner-occupied housing units, and 33.3 percent of the non-farm businesses. The bank operates five or 55.6 percent of its branches in MD. The bank's strongest competitors are Hebron Savings Bank and Farmers Bank of Willards for commercial real estate and home mortgage loans. Over 300 institutions were identified as originating and reporting loans pursuant to HMDA in 2006. Delmarva ranked 41st with a market share of .53 percent by number of home mortgage loans originated.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MARYLAND

Lending Test

During the review period, 80 commercial real estate and home mortgage loans totaling \$26.0 million were made within this assessment area. This volume represents 41.9 percent by number and 49 percent by dollar volume of loans within the bank's assessment area. This proportion is consistent with the proportion of branches, census tracts, families, owner-occupied housing units, and non-farm businesses in the bank's assessment area. Overall, the bank's lending performance in this assessment area is satisfactory, including an adequate borrower and geographic distribution.

Community Development Test

The bank's performance under the Community Development Test is satisfactory. Five (55.6 percent) of the community development loans totaling \$4.3 million discussed in this evaluation benefited this assessment area or broader regional area that included this assessment area. The bank donated \$29,400 to organizations that benefited the MD assessment area. These organizations included SNHS and the Salisbury Chamber of Commerce. Retail services are consistent throughout the MD assessment area. Some of the organizations that benefited include: SWED, SNHS, and Habitat for Humanity of Wicomico County.

Refer to pages 14-18 for a complete discussion of the bank's performance under the Community Development Test.

APPENDIX A

SCOPE OF EXAMINATION TABLE

The Bank of Delmarva
SCOPE OF EXAMINATION: Intermediate Small Institution Examination Procedures
TIME PERIOD REVIEWED: 2005 to 2006
PRODUCTS REVIEWED: HMDA, commercial real estate, and community development loans

LIST OF AFFILIATES AND PRODUCTS REVIEWED		
AFFILIATE(S):	AFFILIATE RELATIONSHIP:	PRODUCTS REVIEWED:
None		

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA:	TYPE OF EXAMINATION:	BRANCHES VISITED:	OTHER INFORMATION:
MARYLAND MSA 41540 Salisbury, MD	Full Scope Review	Salisbury	
DELAWARE Non-metropolitan Sussex County, DE	Full Scope Review	None	