

PUBLIC DISCLOSURE

October 4, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Mercantile Eastern Shore Bank
05877**

**211-213 High Street
Chestertown, Maryland 21620**

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

NOTE: 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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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Mercantile Eastern Shore Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **October 4, 2004**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The CRA rating was determined using large bank CRA procedures. Refer to the scope of the examination under each of the Lending, Investment, and Service Tests for an explanation of how these areas are evaluated. The institution's CRA rating is based on the following:

Lending Test

- Lending activity is excellent with a 98.78 percent loan-to-deposit ratio as of June 30, 2004, and a total of 701 HMDA, small business, and small farm loans made during the review period.
- A high percentage of loans, 89 percent by number, have been originated in the assessment area.
- The geographic distribution of loans reflects good penetration throughout the assessment area, particularly in moderate-income census tracts.
- Lending to borrowers of different incomes and businesses and farms of different sizes is good.
- Community development lending levels are adequate.
- Mercantile Eastern Shore Bank (MESB) makes limited use of innovative and flexible lending products.

Investment Test

- MESB has a significant level of community development investments, which has increased nearly 320 percent since the previous evaluation.
- MESB's investments are not considered complex or innovative.
- Investments respond to the credit needs of the community.

Service Test

- Delivery systems are readily accessible to all portions of the assessment area. Internet banking has been added since the previous evaluation.
- Changes in branch locations have generally not adversely impacted accessibility of delivery systems, particularly in moderate-income census tracts.
- Services do not vary in a way that inconveniences certain portions of the assessment area.
- MESB provides an adequate level of community development services.

LENDING, INVESTMENT, AND SERVICE TEST TABLE:

The following table indicates the performance level of the institution with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	Mercantile Eastern Shore Bank		
	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory	X	X	
Low Satisfactory			X
Needs to Improve			
Substantial Noncompliance			

DESCRIPTION OF INSTITUTION:

Mercantile Eastern Shore Bank (MESB) was established July 28, 2004, via a merger of three Mercantile Bankshares Corporation affiliates: The Chestertown Bank of Maryland, The Peoples Bank of Maryland, and St. Michaels Bank. The surviving charter for this new entity was the former The Chestertown Bank of Maryland (CBM). Since MESB has only been in existence for just over two months and the former CBM is the surviving charter, CRA performance for purposes of this evaluation is based solely on the performance of the former CBM. Therefore, all information presented for MESB reflects only the former CBM.

MESB is a wholly-owned subsidiary of Mercantile Bankshares Corporation, a multi-bank holding company located in Baltimore, Maryland. MESB maintains nine branch offices throughout Kent and Queen Anne's Counties along the Eastern Shore of Maryland. No offices have been closed since the previous CRA evaluation and one has been opened in a middle-income geography (Centreville – April 2004).

As of June 30, 2004, total assets were \$227 million. The bank's loan portfolio totaled \$186 million and represented 82 percent of total assets and 101 percent of total deposits. The investment portfolio, consisting primarily Federal Funds Sold, U.S. Government Agency obligations and mortgage-backed securities, totaled \$23 million and represented 10 percent of assets and 16 percent of deposits. The main focus of the bank's lending continues to be real estate lending. As of June 30, 2004, eighty-two percent of the bank's loans were secured by real estate, with the main focus of this portfolio centered on 1-4 family residential real estate lending. The majority of the remaining balance of the loan portfolio was centered in financing agricultural production or providing commercial loans not secured by real estate. Table A on the following page presents the distribution of the bank's loan portfolio as of June 30, 2004.

The bank's asset growth has been funded with deposits totaling \$185 million, borrowings totaling \$20 million and equity capital totaling \$21 million. The bank has remained profitable since the previous evaluation, recording net income in excess of \$4 million during the last three years (2001 – 2003). The bank's profitability resulted in a return on average assets in excess of 2 percent during the same time period. The bank's net interest margin, another key measure of profitability, was in excess of 5 percent during the same period. These profitability ratios placed MESB near the top of its peer group in terms of return on average assets and net interest margin. MESB's peer group consists of all FDIC-insured commercial banks having assets between \$100 million and \$300 million, located in a non-metropolitan area, and operating three or more full-service offices.

The bank's ability to meet community credit needs remains strong based on its capacity, size, and product offerings. There are no impediments which would impact the bank's ability to help meet the credit needs of the assessment area.

The bank's previous CRA performance, as of August 16, 1999, resulted in a composite rating of Satisfactory, with a High Satisfactory for the Lending Test and a Low Satisfactory for both the Investment and Service Tests.

<i>Table A – Loan Distribution as of 06/30/2004</i>		
<i>Loan Type</i>	<i>Dollar Amount (000s)</i>	<i>Percent of Total Loans (%)</i>
<i>Construction and Land Development</i>	\$9,731	5%
<i>Secured by Farmland</i>	\$15,739	8%
<i>1-4 Family Residential</i>	\$72,781	39%
<i>Multi-Family (5 or more) Residential</i>	\$2,789	2%
<i>Commercial</i>	\$51,480	28%
<i>Total Real Estate Loans</i>	\$152,520	82%
<i>Commercial and Industrial</i>	\$19,217	10%
<i>Agricultural</i>	\$5,238	3%
<i>Consumer</i>	\$3,915	2%
<i>Other (Loans & Leases)</i>	\$4,799	3%
<i>Less: Unearned Income</i>	\$0	0%
<i>Total Loans</i>	\$185,689	100%

Source: Report of Condition

DESCRIPTION OF ASSESSMENT AREA (AA)

The Community Reinvestment Act requires financial institutions to define an assessment area(s) within which the bank will focus its lending efforts. The FDIC evaluates the institution's CRA performance based on its activity within the defined assessment area(s). MESB's assessment area consists of all of Kent County and a portion of Queen Anne's County, all of which are located in Maryland. Kent County is located in a Non-Metropolitan Area and Queen Anne's County is located in Metropolitan Statistical Area (MSA) 0720. Given that the bank's assessment area does not extend substantially into MSA 0720 (5 census tracts), and the assessment area is contiguous, a separate discussion regarding the bank's activities in MSA and non-MSA areas will not be presented.

During 2000 the United States Census Bureau conducted a census. Information from the census resulted in changes to the demographics of MESB's AA. These changes, particularly the census tract labels, have been used by banks when submitting residential mortgage lending data since the beginning of calendar year 2003. Demographic data from both the 1990 and 2000 censuses will be presented in this evaluation, as lending activity from 2002 will be compared to the demographics from the 1990 census and 2003 lending activity will be compared to the results of the 2000 census.

Assessment Area (1990 Census Data)

MESB's AA consists of 10 census tracts in Kent and Queen Anne's Counties on the Eastern Shore of Maryland. Queen Anne's County is located in the Baltimore Metropolitan Statistical Area (MSA) 720 while Kent County is located in the Non-Metropolitan Area of Maryland. Of the 10 tracts within the AA, none are low-income, 2 (20 percent) are moderate-income, 7 (70 percent) are middle-income, and the remaining 1 (10 percent) is upper-income. Within the AA, there are 12,065 households, of which 3,080 (25 percent) are low-income, 2,063 (17 percent) are moderate-income, 2,481 (21 percent) are middle-income, and the remaining 4,441 (37 percent) are upper-income.

Assessment Area (2000 Census Data)

Using the updated demographic information from the 2000 census, the only change to the census tract labels was that the one upper-income census tract is now a middle-income tract. The volume of households in the AA increased to 13,684, with the proportion of low-, moderate-, middle-, and upper-income households at 24 percent, 16 percent, 21 percent and 39 percent, respectively.

As the bank's small business and small farm lending activities during 2002 and 2003 will be evaluated, it is also important to know where the small business establishments are located. According to 2003 data from Dun & Bradstreet, there are 2,861 farm and nonfarm businesses within the bank's AA (398 farms and 2,463 nonfarms). By geography, 37 of the farms (9 percent) and 326 of the nonfarms (13 percent) are located in the two moderate-income census

tracts, with the remaining 361 farms (91 percent) and 2,137 nonfarms (87 percent) located in the eight middle-income census tracts. The majority of the businesses and farms generate sales of \$1 million or less (67 percent businesses and 95 percent farms) and employ between one and four people (1,841 businesses and farms – 64 percent). By industry, the largest employers are the service industry, agriculture, retail trade, and construction.

HUD-Adjusted Median Family Incomes

The revised Community Reinvestment Act requires an evaluation of the bank’s in-area loans based on borrower incomes. As a result, the Department of Housing and Urban Development (HUD) updates individual incomes annually. Borrower incomes are compared to HUD-adjusted median family income figures for the year in which the loan is granted. Borrowers are then categorized as low-, moderate-, middle-, or upper-income. The parameters for each income category are identical to those percentages used in categorizing census tracts. The HUD-adjusted median family income figures for the bank’s AA during 2002 and 2003 are detailed below.

<i>Table B - HUD-Adjusted Median Family Incomes</i>		
	<i>2002</i>	<i>2003</i>
<i>MSA 0720</i>	\$66,400	\$67,300
<i>MD Non-Metro</i>	\$54,800	\$54,700

Community Contact

An interview was conducted with an affordable housing organization in Kent County. According to the contact, affordable housing in Kent County is desperately needed. There are approximately 24 Section 8 housing rentals available in the county. Part of the reason for the lack of affordable housing is that college students at the local college can afford to pay higher rents. The lack of affordable housing is a detriment to the county in that it has created a labor shortage, according to the contact. The contact indicated that while funding for small business start-ups and affordable housing would be helpful on the part of financial institutions, the most pressing need is credit counseling.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

LENDING TEST

Scope of Test

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The FFIEC Consumer Compliance Task Force, on behalf of the FFIEC, has adopted 15 core tables, sequentially numbered 1-15, for inclusion in CRA Public Evaluations. These tables are included in Appendix D of this evaluation. The core tables include data on lending volume, geographic and borrower distribution of loans, qualified investments, and branch information. These 15 tables are to be used for all institutions evaluated using the large institution CRA evaluation procedures. Each agency may supplement the core tables with additional tables to support the conclusions. The agencies have adopted the core tables in an effort to promote a more consistent presentation and analysis of data. Each CRA large bank public evaluation must include all 15 core tables, unless the institution has not originated or purchased any loans in a particular category or has not elected to report consumer loan data. Consequently, any tables not included in this Public Evaluation were excluded because the institution has not originated or purchased any loans in the relevant category during the period under review or did not elect to report consumer loan data.

Lending Activity and Assessment Area Concentration

MESB's lending levels reflect excellent responsiveness to assessment area credit needs. A high percentage of loans have been made within the assessment area. As of June 30, 2004, MESB's net loan-to-deposit ratio was 98.78 percent, which is well above peer, as of the same date, of 77.93 percent. This high level of lending activity is reflected in the bank's HMDA, small business, and small farm lending.

In 2002, MESB ranked 3rd out of 193 HMDA reporters in its assessment area and held a 6 percent share of the market. The bank was third only to The Centreville National Bank and Wells Fargo Home Mortgage. In 2003, HMDA lending in the assessment area remained strong, increasing 20.2 percent over the previous year. Aggregate data for 2003 was not available as of the date of this evaluation.

In 2002, MESB ranked 4th out of 43 large bank CRA reporters of small business loans, and held a 16 percent share of the market. The bank was fourth only to Capital One; FSB; MBNA America, NA; and Citibank USA, NA, all large national lenders. In 2003, MESB's small business lending declined 27 percent.

In 2002, MESB was the number one small farm lender, with 67 loans and a 92 percent market share. Only seven lenders made small farm loans in Kent and Queen Anne's Counties in 2002. No other lender originated more than four small farm loans in this area. In 2003, MESB's small farm lending in the assessment area decreased to 60 loans

Overall lending in the assessment area is good at 89 percent by number and 87 percent by dollar volume as indicated in Table C. A majority of the bank's lending activities have been within its assessment area, but these levels declined slightly from 2002 to 2003, in tandem with a decline in overall total lending. The decline in lending was due to small business and small farm lending. HMDA lending actually increased, both overall and in the assessment area, even though the percentage in the assessment area declined slightly.

Table C – Distribution of Loans Inside and Outside of the Assessment Area

<i>Loan Category or Type</i>	<i>Number of Loans</i>					<i>Dollars in Loans (000s)</i>				
	<i>Inside</i>		<i>Outside</i>		<i>Total</i>	<i>Inside</i>		<i>Outside</i>		<i>Total</i>
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>		<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	
<i>Home Mortgage</i>										
2002	124	91%	12	9%	136	\$14,170	91%	\$1,429	9%	\$15,599
2003	149	88%	20	12%	169	\$22,795	86%	\$3,850	14%	\$26,645
<i>Subtotal</i>	273	90%	32	10%	305	\$36,965	88%	\$5,279	12%	\$42,244
<i>Small Business</i>										
2002	174	92%	15	8%	189	\$22,010	90%	\$2,465	10%	\$24,475
2003	127	86%	21	14%	148	\$10,388	78%	\$2,935	22%	\$13,323
<i>Subtotal</i>	301	89%	36	11%	337	\$32,398	86%	\$5,400	14%	\$37,798
<i>Small Farm</i>										
2002	67	91%	7	9%	74	\$4,261	85%	\$733	15%	\$4,994
2003	60	88%	8	12%	68	\$2,466	92%	\$226	8%	\$2,692
<i>Subtotal</i>	127	89%	15	11%	142	\$6,727	88%	\$959	12%	\$7,686
<i>Total</i>	701	89%	83	11%	784	\$76,090	87%	\$11,638	13%	\$87,728

Source: All loan data provided by bank.

Geographic Distribution

This performance criterion considers the geographic distribution of the bank's lending activities, based on the loan location, including the dispersion of lending in the bank's assessment area; and the number and amount of loans in low-, moderate-, middle-, and upper income geographies of the bank's assessment area. Individual tables presenting the dispersion throughout the assessment area of the bank's home purchase, home improvement, refinances, and multi-family loans during the review period are located in Tables 2a, 3a, and 4a in Appendix D. Small business and small farm loan distribution is in Tables 6a and 7a, respectively, in Appendix D.

The geographic distribution of the bank's lending activities represents a good distribution among the various geographies of the assessment area. The distribution by dollar volume represents a similar lending pattern. The bank's performance was evaluated based on HMDA, small business, and small farm lending in the assessment area as described below. As described under description of the assessment area, there are no low-income census tracts in the assessment area.

HMDA Loans

HMDA geographic distribution is considered excellent. During the review period MESB originated 51 loans, or 19 percent, in moderate-income census tracts. By product in 2002, the bank's best performance in moderate-income census tracts was refinance loans, with 26 percent of these loans made, compared to 17 percent of owner-occupied housing units in moderate-income census tracts. In 2003, the best performance was in home improvement loans, with 31 percent of these loans made in 2003, compared to 19 of owner-occupied housing units in moderate-income census tracts. Aggregate performance is only available for 2002, therefore performance over the two year review period is not compared to aggregate; however, it is compared for the year available.

In 2002, MESB originated 18 percent of its HMDA loans in moderate-income census tracts compared to aggregate of 10 percent. MESB also originated a higher percentage of HMDA loans by each product (home purchase, refinance, and home improvement) than aggregate. In 2003, MESB originated 19 percent in moderate-income census tracts, which is an increase from 22 loans to 29 loans. This represents a 32 percent increase in HMDA lending in moderate-income census tracts.

Small Business Loans

Geographic distribution of small business loans is good. Over the review period, MESB originated 36 small business loans, or 12 percent, in moderate-income census tracts. Lending in moderate-income census tracts was below the 13 percent of businesses located in these tracts as reported by Dun and Bradstreet for 2002. In 2003, lending in moderate-income census tracts was 16 percent, which is greater than the 13 percent of businesses located in moderate-income census tracts. Again, aggregate lending was not available for 2003 so only lending performance for 2002 is compared to the aggregate.

In 2002, MESB originated 16 small business loans, or 9 percent, in moderate-income census tracts compared to aggregate of 11 percent. While performance did not meet aggregate, small business lending in 2003 increased to 16 percent, of total small business loans, originated in moderate-income census tracts. This is significant considering total small business lending in the assessment area actually declined 27 percent.

Small Farm Loans

The geographic distribution of small farm loans is adequate. Over the review period, MESB originated 14 small farm loans, or 14 percent, in moderate-income census tracts. In 2002, lending in moderate-income census tracts was 19 percent; above the 12 percent of farms located in these tracts as reported by Dun and Bradstreet for 2002. In 2003, lending in moderate-income census tracts was 2 percent, which is below the 9 percent of farms located in moderate-income census tracts. Again, aggregate lending was not available for 2003 so lending performance for 2002 is compared to aggregate below.

In 2002, MESB originated 13 small farm loans, or 19 percent, in moderate-income census tracts compared to aggregate of 19 percent. While performance met aggregate, small farm lending in 2003 declined to 1 loan, or 2 percent, of total small farm loans, originated in moderate-income census tracts. This 92 percent decline in the number of loans is greater than the overall small farm lending decline in the assessment area from 2002 to 2003, of 10 percent.

Borrowers' Profile

This performance criterion considers the distribution of the bank's HMDA loans to low-, moderate-, middle-, and upper-income individuals, and small business and small farm loans to business and farms of different sizes, respectively. For HMDA loans, borrower incomes were compared to the HUD-adjusted median family incomes for the year in which the loan was granted. Individual tables presenting the distribution by borrower income by home purchase, home improvement and refinances is presented in Tables 8a, 9a, and 10a in Appendix D. Small business and small farm lending is presented in Tables 11a and 12a, respectively in Appendix D.

The distribution of borrowers reflects good penetration among customers of different incomes and businesses and farms of different sizes. The distribution by dollar volume represents a similar lending pattern. The bank's performance was evaluated based on HMDA, small business, and small farm lending in the assessment area as described below.

HMDA Loans

The distribution of HMDA loans by borrower income is good. During the review period MESB originated 37 loans, or 14 percent, of HMDA loans to low-income borrowers and 46 loans, or 17 percent, to moderate-income borrowers. By product, the bank's best performance to low-income borrowers was home improvement loans, with 22 percent of these loans made, compared to 20 percent of low-income families in the assessment area based on 1990 census data. In moderate-income census tracts the greatest percentage of HMDA loans made was home purchase loans at 21 percent compared to 20 percent of moderate-income families in the assessment area based on

1990 census data. Based on 2000 census data, the greatest percentage of HMDA loans to low-income borrowers by product was home improvement loans (32 percent compared to 21 percent low-income families) and to moderate-income borrowers was refinance loans (21 percent compared to 19 percent moderate-income families). Aggregate performance is only available for 2002, therefore performance over the two year review period is not compared to aggregate; however, it is compared for the year available.

In 2002, MESB originated 14 percent of its HMDA loans to low-income borrowers compared to aggregate of 8 percent. In moderate-income census tracts MESB originated 19 percent compared to aggregate of 19 percent. HMDA lending performance in 2003 declined slightly with 13 percent of loans made to low-income borrowers and 15 percent made to moderate-income borrowers. The number of loans originated to low-income borrowers actually increased from 17 to 20, despite the percentage decline.

Small Business Loans

MESB's lending to businesses of smaller sizes is good. Over the review period, MESB originated 301 small business loans with 74 percent to businesses with gross annual revenues of \$1 million or less. Lending to these businesses was greater than the 67 percent of businesses with gross annual revenues less than or equal to \$1 million located in the assessment area. The percent of businesses is based on 2003 Dun and Bradstreet information. Loan origination amounts were also reviewed as a proxy for business size. Over the review period, MESB originated 76 percent of small business loans for original loan amounts of \$100,000 or less. Again, aggregate lending was not available for 2003, so lending performance for 2002 is compared to aggregate below.

In 2002, MESB originated 132 small business loans, or 76 percent, to businesses with gross annual revenues of \$1 million or less, compared to aggregate of 32 percent. In 2003, small business loan originations to these smaller businesses decreased to 72 percent; however overall small business lending decreased 27 percent from 2002 to 2003.

Small business lending by loan origination amount was also reviewed. In 2002, MESB originated 127 small business loans, or 73 percent, for original amounts of \$100,000 or less while aggregate originated 94 percent. In 2003, this lending declined slightly to 100 loans, but the actual percentage increased to 79 percent, which is significant considering the decline in overall small business lending.

Small Farm Loans

Lending to farms of smaller sizes is good. Over the review period, MESB originated 127 small farm loans with 87 percent to farms with gross annual revenues of \$1 million or less. Lending to these farms was less than the 94 percent of farms with gross annual revenues less than or equal to \$1 million located in the assessment area. The percent of farms is based on 2003 Dun and Bradstreet information. Loan origination amounts were also reviewed as a proxy for farm size. Over the review period, MESB originated 89 percent of small farm loans for original loan

amounts of \$100,000 or less. Aggregate lending information was not available for 2003, so lending performance for 2002 is compared to aggregate below.

In 2002, MESB originated 57 small farm loans, or 85 percent, to farms with gross annual revenues of \$1 million or less, compared to aggregate of 85 percent. In 2003, small farm loan originations to these smaller farms increased to 90 percent despite an overall decrease in small farm lending in the assessment area from 2002 to 2003.

Small farm lending by loan origination amount was also reviewed. In 2002, MESB originated 56 small farm loans, or 84 percent, for original amounts of \$100,000 or less while aggregate originated 85 percent. In 2003, this lending increased slightly to 57 loans, and the actual percentage increased to 95 percent, which is significant considering the decline in overall small farm lending.

Community Development Lending:

Performance Criteria

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

MESB made one community development loan for \$3 million over the review period, which is considered adequate. The loan was made to a local business in a moderate-income census tract and responded to an area credit need. The loan was to refurbish this manufacturing based business that employs primarily low-income workers. Without this loan, approximately 65 low-income employees would have lost their jobs due to the closing of the business.

Innovative and Flexible Lending Practices

Performance Criteria

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

MESB makes limited use of flexible lending practices in order to serve assessment area credit needs. During the review period \$712,855 in loans were originated under flexible lending programs. These programs are described below.

A first time home buyer product was offered through the Rural Economic Community Development program. During 2002, four loans were made under this program in the assessment area for a total of \$397,900. During 2003, one loan was made in the assessment area for \$139,055.

Veteran's Affairs (VA) and Federal Housing Administration (FHA) loans were also offered during the review period. One VA loan was originated in 2003 for \$93,600, and one FHA loan was originated in 2002 for \$82,300, within the assessment area.

The bank also participated in a loan program developed specifically for victims of Hurricane Isabel. The bank did not have any originations under this program.

INVESTMENT TEST

Scope of Test

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test. The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

Findings

Based on investment volume, performance when compared to other FDIC evaluated banks, and capacity to obtain/develop innovative or complex investments, MESB's level of qualified investments is significant, and responsiveness to community development needs is good. However, the investments are not considered innovative and are not particularly complex. Table 14 in Appendix D sets forth the number and dollar amount of the qualified investments.

Over the review period, MESB purchased three community development administration (CDA) bonds for a total of \$430,000 and made qualified donations of \$17,825. CDA bonds were purchased in 2000, 2001, and 2003. During the previous CRA review period one CDA bond was noted within the performance evaluation; this bond matured during this review period. Therefore, there are no outstanding community development investments from the previous CRA evaluation. Total investments and donations of \$447,825 represent 2 percent of the securities portfolio and 0.2 percent of total assets. Securities represent 10 percent of total assets. Total investments during this review period increased 320 percent over the previous review period. Overall investment performance is considered significant in comparison to the investment performance of other Maryland banks and based on the limited opportunities available within the assessment area.

SERVICE TEST

Scope of Test

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.

Retail Banking Services

Retail banking services are provided through traditional brick and mortar bank branches, automated teller machines (ATMs), telephone banking, and Internet banking. Delivery systems are readily accessible to all portions of the institution's assessment areas. Additionally, services do not vary in a way that inconveniences certain portions of the assessment areas, particularly low- and moderate-income geographies or individuals.

Branch Delivery System

MESB's branch network compares very favorably to the distribution of census tracts and households as evidenced in Table D below and Table 15 in Appendix D. All branches have ATMs, with the exception of the Crumpton and Church Hill branches, which are located in moderate-income and middle-income census tracts, respectively.

Hours and days of operation at the branches are reasonable, with extended hours on Fridays and Saturday hours at two locations. All branches have drive-up facilities as well. Hours are consistent with other area financial institutions.

Table D - Distribution of Bank Offices by Income Category of the Census Tract						
Census Tract Income Category	Census Tracts in Assessment Area		Households		Bank Offices by Tract Location	
	#	%	#	%	#	%
Low	0	0	0	0	0	0
Moderate	2	20	2,324	17	2	22
Middle	8	80	11,360	83	7	78
Upper	0	0	0	0	0	0
Total	10	100	13,684	100	9	100

Source: 2000 U.S. Census data and bank records.

Branch Openings and Closings

The institution's opening and closing of branches has generally not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and to low- and moderate-income individuals. One branch was opened in Centreville, Maryland in Queen Anne's County since the previous evaluation. The Centreville branch is located in a middle-income census tract. No branches have been closed since the previous evaluation.

Alternative Delivery Systems

Alternative delivery systems utilized by MESB include ATMS, telephone banking, and on-line banking. ATMs are available at all branches with the exception of Crumpton and Church Hill branches, as noted above.

Telephone banking is available 24 hours a day, 7 days a week. Customers can check account balances; transfer funds between accounts; check deposit and loan account balances; transfer funds between checking and savings; verify account transactions; and check interest rates.

Internet banking gives customers 24 hour access to their account information and has been added as an alternative delivery system since the previous examination. Customers can check balances on accounts; pay bills on-line; confirm deposits, withdrawals and checks cleared and reconcile accounts; transfer funds from one account to another; and view statement and account history. The bill pay feature was added in 2004.

Community Development Services

MESB provides an adequate level of community development services. Involvement is primarily via the bank's board members as described below.

A bank board member serves as a board member of Upper Shore Aging, Inc. This organization is devoted to assisting the elderly, particularly low- and moderate-income, with maintaining and improving their quality of life. Educational, nutritional, and health programs are a few of the services offered by this organization.

A board member and a senior officer serve on the board of the Maryland Rural Development Corporation. The organization's mission is to identify and respond to the human service and community development needs of eligible individuals, families and communities; develop and administer program activities; and address identified needs or causes for such programs to be developed. The organization focuses its activities throughout rural areas in Maryland to improve human conditions.

Two board members serve on the advisory board of the Kent County Economic Development Office, whose mission is to promote quality economic development in Kent County. One board member also served on this organization's sub-committee to approve small business loans.

An officer of the bank met with the Talbot and Caroline County affiliates of Habitat for Humanity to explore developing a program in Kent or Queen Anne's Counties. Thus far, a program of such has not been feasible due to the high cost of land in the area.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations.

APPENDIX A

SCOPE OF EXAMINATION:

<p style="text-align: center;">Mercantile Eastern Shore Bank</p> <p>SCOPE OF EXAMINATION: Full Scope Large Bank Examination Procedures</p>
<p>TIME PERIOD REVIEWED: January 1, 2002 – December 31, 2003 for loans; October 19, 1999 to October 14, 2004 for community development loans, investments, and services.</p>
<p>PRODUCTS REVIEWED: HMDA, Small Business, and Small Farm Loans.</p>

APPENDIX B - GENERAL DEFINITIONS

GEOGRAPHY TERMS

Block: Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

Block Group: Clusters of blocks within a census tract or BNA, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract or BNA in which it is located.

Block Numbering Areas (BNAs): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census Tract: Small subdivisions 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. They 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.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural

classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

Rural Area: Territories, populations and housing units that are not classified as urban.

HOUSING TERMS

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).

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.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

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.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

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.

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 and less than 80 percent in the case of a geography.

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 and less than 120 percent in the case of a geography.

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.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: 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, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

APPENDIX C - INVESTMENT DEFINITIONS

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Low Income Housing Tax Credits: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

Qualified Investments: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

APPENDIX D

Institution ID: 30000005877

MERCANTILE EASTERN SHORE BANK

Table 1. Lending Volume

LENDING VOLUME		Geography: ASSESSMENT AREA						Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003				
MA/Assessment Area:	% of Rated Area Loans (#) in MA/AA*	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
Overall Assessment Area												
2002 Loans - 1990 Census	100.00	124	14,170	174	22,010	67	4,261	0	0	365	40,441	0.00
2003 Loans - 2000 Census	100.00	149	22,795	127	10,383	60	2,466	1	3,000	337	38,644	0.00

* Loan Data as of December 31, 2002. Rated area refers to either the state or multi-state MA rating area.

** The evaluation period for Community Development Loans is From January 01, 2002 to December 31, 2003.

*** Deposit Data as of December 31, 2002. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

Institution ID:

30000005877 MERCANTILE EASTERN SHORE BANK

Table 1. Other Products

LENDING VOLUME		Geography: ASSESSMENT AREA				Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003								
MA/Assessment Area:	% of Rated Area Loans (#) in MA/AA*	Total Optional Loans		Small Business Real Estate Secured**		Home Equity**		Motor Vehicle**		Credit Card**		Other Secured Consumer**		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
Overall Assessment Area														
2002 Loans - 1990 Census	0.00	0	0	0	0	0	0	0	0	0	0	0	0	0.00
2003 Loans - 2000 Census	0.00	43	8,459	43	8,459	0	0	0	0	0	0	0	0	0.00

* Loan Data as of December 31, 2002. Rated area refers to either the state or multi-state MA rating area.

** The evaluation period for Optional Product Line(s) is From January 01, 2002 to December 31, 2003.

*** Deposit Data as of December 31, 2002. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

30000005877 MERCANTILE EASTERN SHORE BANK

Institution ID:

Table 1. Other Products

LENDING VOLUME		Geography: ASSESSMENT AREA		Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003	
MA/Assessment Area:	Other Unsecured Consumer Loans*		Other Optional Loans*		
	#	\$ (000's)	#	\$ (000's)	
Overall Assessment Area					
2002 Loans - 1990 Census	0	0	0	0	0
2003 Loans - 2000 Census	0	0	0	0	0

* The evaluation period for Optional Product Line(s) is From January 01, 2002 to December 31, 2003.

Table2a. Geographic Distribution of Home Purchase Loans

Geographic Distribution: HOME PURCHASE		Geography: ASSESSMENT AREA				Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003								
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
Overall Assessment Area														
2002 Loans – 1990 Census	52	100.00	0.00	0.00	16.93	15.38	73.08	63.46	10.00	21.15	0.00	9.50	82.64	7.86
2003 Loans – 2000 Census	65	100.00	0.00	0.00	18.60	20.00	81.40	80.00	0.00	0.00	2003 Aggregate Data Not Available			

* Based on 2002 Peer Mortgage Data: US and PR.

** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 1990 Census information.

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Table 3a. Geographic Distribution of Home Improvement Loans

Geographic Distribution: HOME IMPROVEMENT		Geography: ASSESSMENT AREA						Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003						
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
Overall Assessment Area														
2002 Loans - 1990 Census	37	100.00	0.00	0.00	16.93	13.51	73.08	67.57	10.00	18.92	0.00	11.45	81.68	6.87
2003 Loans - 2000 Census	39	100.00	0.00	0.00	18.60	30.77	81.40	69.23	0.00	0.00	2003 Aggregate Data Not Available			

* Based on 2002 Peer Mortgage Data: US and PR.

** Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information.

Table 4a. Geographic Distribution of Home Mortgage Refinance Loans

Geographic Distribution: HOME MORTGAGE REFINANCE		Geography: ASSESSMENT AREA				Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003								
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
Overall Assessment Area														
2002 Loans - 1990 Census	35	100.00	0.00	0.00	16.93	25.71	73.08	51.43	10.00	22.86	0.00	10.41	82.04	7.56
2003 Loans - 2000 Census	39	100.00	0.00	0.00	18.60	10.26	81.40	89.74	0.00	0.00	2003 Aggregate Data Not Available			

* Based on 2002 Peer Mortgage Data: US and PR.

** Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information.

Table 5a. Geographic Distribution of Multifamily Loans

Geographic Distribution: MULTIFAMILY		Geography: ASSESSMENT AREA				Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003								
MA/Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% of MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	Low	Mod	Mid	Upp
Overall Assessment Area														
2002 Loans - 1990 Census	0	0.00	0.00	0.00	12.01	0.00	47.18	0.00	40.81	0.00	0.00	0.00	0.00	100.00
2003 Loans - 2000 Census	6	100.00	0.00	0.00	7.81	0.00	92.19	100.00	0.00	0.00	2003 Aggregate Data Not Available			

* Based on 2002 Peer Mortgage Data: US and PR.

** Multifamily loans originated and purchased in the MA/AA as a percentage of all multifamily loans originated and purchased in the rated area.

*** Percentage of multifamily units is the number of multifamily housing units in a particular geography divided by number of multifamily housing units in the area based on 1990 Census information.

Table 6a. Geographic Distribution of Small Loans to Businesses

Geographic Distribution: SMALL LOANS TO BUSINESSES		Geography: ASSESSMENT AREA					Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003							
MA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%) by Tract Income*			
	#	% of Total**	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	Low	Mod	Mid	Upp
Overall Assessment Area														
2002 Loans - 1990 Census	174	100.00	0.00	0.00	12.75	9.20	59.60	62.64	27.65	28.16	0.00	6.06	59.41	34.53
2003 Loans - 2000 Census	127	100.00	0.00	0.00	13.24	15.75	86.76	84.25	0.00	0.00	2003 Aggregate Data Not Available			

* Based on 2002 Peer Small Business Data: US and PR.

** Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

*** Source Data - Dun and Bradstreet (2003).

Table 7a. Geographic Distribution of Small Loans to Farms

Geographic Distribution: SMALL LOANS TO FARMS														
Geography: ASSESSMENT AREA														
Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003														
MA/Assessment Area:	Total Small Farm Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%) by Tract Income*			
	#	% of Total**	% of Farms***	% BANK Loans	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	Low	Mod	Mid	Upp
Overall Assessment Area														
2002 Loans - 1990 Census	67	100.00	0.00	0.00	12.31	19.40	83.17	77.61	4.52	2.99	0.00	18.67	74.67	6.67
2003 Loans - 2000 Census	60	100.00	0.00	0.00	9.30	1.67	90.70	98.33	0.00	0.00	2003 Aggregate Data Not Available			

* Based on 2002 Peer Small Business Data: US and PR.

** Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

*** Source Data - Dun and Bradstreet (2003).

Institution ID: 30000005877 MERCANTILE EASTERN SHORE BANK

Table 8a. Borrower Distribution of Home Purchase Loans

Borrower Distribution: HOME PURCHASE		Geography: ASSESSMENT AREA						Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003						
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*			
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Low	Mod	Mid	Upp
Overall Assessment Area														
2002 Loans - 1990 Census	52	100.00	19.72	9.62	20.02	21.15	24.52	19.23	35.73	50.00	8.95	20.37	27.93	42.75
2003 Loans - 2000 Census	65	100.00	20.96	10.94	19.09	14.06	24.98	17.19	34.96	57.81	2003 Aggregate Data Not Available			

* Based on 2002 Peer Mortgage Data: US and PR.

** As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by BANK.

*** Percentage of Families is based on the 1990 Census information.

**** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

Table 9a. Borrower Distribution of Home Improvement Loans

Borrower Distribution: HOME IMPROVEMENT		Geography: ASSESSMENT AREA						Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003						
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*			
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Low	Mod	Mid	Upp
Overall Assessment Area														
2002 Loans - 1990 Census	37	100.00	19.72	22.22	20.02	19.44	24.52	25.00	35.73	33.33	19.38	28.68	29.46	22.48
2003 Loans - 2000 Census	39	100.00	20.96	31.58	19.09	13.16	24.98	21.05	34.96	34.21	2003 Aggregate Data Not Available			

* Based on 2002 Peer Mortgage Data: US and PR.

** As a percentage of loans with borrower income information available. No information was available for 2.70% of loans originated and purchased by BANK.

*** Percentage of Families is based on the 1990 Census information.

**** Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

Table 10a. Borrower Distribution of Home Mortgage Refinance Loans

Borrower Distribution: HOME MORTGAGE REFINANCE		Geography: ASSESSMENT AREA						Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003						
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*			
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Low	Mod	Mid	Upp
Overall Assessment Area														
2002 Loans - 1990 Census	35	100.00	19.72	11.76	20.02	17.65	24.52	38.24	35.73	32.35	8.15	20.58	29.50	41.77
2003 Loans - 2000 Census	39	100.00	20.96	2.56	19.09	20.51	24.98	23.08	34.96	53.85	2003 Aggregate Data Not Available			

* Based on 2002 Peer Mortgage Data: US and PR.

** As a percentage of loans with borrower income information available. No information was available for 2.86% of loans originated and purchased by BANK.

*** Percentage of Families is based on the 1990 Census information.

**** Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

Table11a. Borrower Distribution of Small Loans to Businesses

Borrower Distribution: SMALL LOANS TO BUSINESSES									
Geography: ASSESSMENT AREA					Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003				
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Aggregate Lending Data*	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
Overall Assessment Area									
2002 Loans - 1990 Census	174	100.00	67.44	75.86	72.99	10.92	16.09	1,062	335
2003 Loans - 2000 Census	127	100.00	67.44	71.65	78.74	14.17	7.09	2003 Aggregate Data Not Available	

* Based on 2002 Peer Small Business Data: US and PR.

** Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

*** Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2003).

**** Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 1.15% of small loans to businesses originated and purchased by the bank.

Table12a. Borrower Distribution of Small Loans to Farms

Borrower Distribution: SMALL LOANS TO FARMS									
Geography: ASSESSMENT AREA				Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003					
MA/Assessment Area:	Total Small Loans to Farms		Farms With Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Aggregate Lending Data*	
	#	% of Total**	% of Farms***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
Overall Assessment Area									
2002 Loans - 1990 Census	67	100.00	94.72	85.07	83.58	8.96	7.46	73	62
2003 Loans - 2000 Census	60	100.00	94.72	90.00	95.00	3.33	1.67	2003 Aggregate Data Not Available	

* Based on 2002 Peer Small Business Data: US and PR.

** Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

*** Farms with revenues of \$1 million or less as a percentage of all farms (Source D&B - 2003).

**** Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms. No information was available for 5.97% of small loans to farms originated and purchased by the bank.

Table 14. Qualified Investments

QUALIFIED INVESTMENTS		Geography: ASSESSMENT AREA				Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003			
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
Overall Assessment Area									
Evaluation Period	0	0	3	448	3	448	100.00	0	0

* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

** 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

Table 15. Distribution of Branch Delivery System and Branch Openings/Closings

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS				Geography: ASSESSMENT AREA				Evaluation Period: JANUARY 1, 2002 TO DECEMBER 31, 2003									
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings				Population					
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Overall Assessment Area																	
Evaluation Period	0.00	9	100.00	0.00	22.22	77.78	0.00	1	0	0	0	1	0	0.00	15.62	84.38	0.00

1990 Census Data

Demographic Information for Full Scope Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	10	0.00	20.00	70.00	10.00	0.00
Population by Geography	32,369	0.00	15.51	71.26	13.23	0.00
Owner-Occupied Housing by Geography	8,844	0.00	16.93	73.08	10.00	0.00
Business by Geography	2,463	0.00	12.75	59.60	27.65	0.00
Farms by Geography	398	0.00	12.31	83.17	4.52	0.00
Family Distribution by Income Level	8,776	19.72	20.02	24.52	35.73	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	3,488	0.00	22.36	71.59	6.05	0.00
Median Family Income HUD Adjusted Median Family Income for 2002 Households Below Poverty Level		37,951 60,600 11.79%	Median Housing Value Unemployment Rate (1990 US Census)		90,665 1.88%	

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 1990 US Census and 2002 HUD updated MFI

2000 Census Data

Demographic Information for Full Scope Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	10	0.00	20.00	80.00	0.00	0.00
Population by Geography	35,175	0.00	15.62	84.38	0.00	0.00
Owner-Occupied Housing by Geography	10,105	0.00	19.60	81.40	0.00	0.00
Business by Geography	2,463	0.00	13.24	86.76	0.00	0.00
Farms by Geography	398	0.00	9.30	90.70	0.00	0.00
Family Distribution by Income Level	9,631	20.96	19.09	24.98	34.96	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	3,858	0.00	22.78	77.22	0.00	0.00
Median Family Income HUD Adjusted Median Family Income for 2003 Households Below Poverty Level		53,929 61,000 10.47%	Median Housing Value Unemployment Rate (2000 US Census)		128,182 2.05%	

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2000 US Census and 2003 HUD updated MFI