

SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 06, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bay National Bank
Charter Number 23992

2328 West Joppa Road
Baltimore, MD 21093

Office of the Comptroller of the Currency

NORTHERN PENNSYLVANIA FIELD OFFICE
60 Public Square Suite 602
Wilkes-Barre, PA 18701

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.

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

The major factors supporting the institution's rating include:

- The net loan-to-deposit ratio is more than reasonable;
- A majority of the loans originated and purchased are in the bank's assessment area;
- The distribution of loans reflects reasonable penetration among businesses of different sizes; and
- The geographic distribution of loans reflects reasonable penetration among census tracts of different incomes.

SCOPE OF EXAMINATION

Bay National Bank (BNB) was evaluated under the Small Bank CRA examination procedures. This Small Bank examination assesses the bank's performance under the lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area through its lending activities. The lending test for BNB covers its performance from January 1, 2006 through September 30, 2008, as this is representative of its lending strategy since the last CRA examination. During this timeframe, BNB's primary loan product was business lending. To evaluate the bank's business lending performance, we selected a sample of business loans made from January 1, 2006 through September 30, 2008. We placed more weight on the Baltimore-Towson, MD MSA 12580 AA ratings than the Salisbury, MD MSA 41540 AA ratings because a majority of the bank's lending and deposits are located within the Baltimore-Towson, MD MSA 12580 AA.

DESCRIPTION OF INSTITUTION

Established on May 12, 2000, BNB is an intrastate bank with total assets of \$274 million, as of September 30, 2008. It is wholly owned by Bay National Corporation of Lutherville, Maryland; a single bank holding company. BNB does not have affiliates or subsidiaries. There were no branches opened or closed since the last CRA examination, and there were no merges or acquisitions during the evaluation period.

BNB operates two full-service branch offices, one in Lutherville, MD and one in Salisbury, MD. Both branches have normal business hours of 9:00 AM to 4:00 PM, Monday to Friday; with 24-hour Telephone Banking. The bank does not charge customers a bank fee for using Automatic Teller Machines (ATMs) and reimburses all fees associated with the first ten debit card ATM transactions per month.

23992

BNB offers a variety of standard services and products to meet both consumer and commercial banking needs. Its retail services include checking accounts, savings accounts, and residential mortgages. Its commercial services include, but are not limited to, business checking accounts, savings accounts, money market accounts, commercial mortgages, commercial real estate loans, working capital lines of credit, import/export financing, letters of credit, and equipment loans and leasing. A detailed list of consumer and commercial products and services can be found on the bank's internet website, which is www.baynational.com. In addition to standard banking services, BNB offers telephone banking, online banking with bill payment options, and Individual Retirement Accounts.

As of September 30, 2008, BNB reported \$238 million in net loans and \$234 million in total deposits. BNB's net loans to total assets ratio was 87%. The bank's loan portfolio consists of residential real estate loans (34%), commercial loans (64%), and loans to individuals (2%). Net Tier One Capital was \$24 million as of that same date.

Competition is strong and includes local community banks and branches of larger regional and national institutions. BNB's primary competitors are: Bank of America, Manufacturers & Traders Trust Co., PNC Bank, Wachovia Bank, Hebron Savings Bank, Farmers Bank of Willards, and Bank of Delmarva.

There are no legal, financial, or other factors impeding BNB's ability to help meet the credit needs in its assessment area. At the prior CRA examination, dated May 8, 2003, BNB was rated "Satisfactory".

DESCRIPTION OF ASSESSMENT AREA(S)

BNB has two assessment areas (AAs) within the state of Maryland. The primary AA is located in the Baltimore-Towson, MD MSA 12580, and the second AA is located in the Salisbury, MD MSA 41540. Both AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies.

The two AAs are described below.

Baltimore-Towson, MD MSA 12580 AA

Demographic Information for: Baltimore-Towson, MD MSA 12580 AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	445	17.53	26.74	34.38	20.45
Population by Geography	1,653,288	13.64	26.24	35.03	24.68
Owner-Occupied Housing by Geography	398,867	7.34	23.28	38.31	31.06
Businesses by Geography	126,517	8.71	21.98	38.01	31.24
Farms by Geography	1,696	1.83	11.62	32.61	53.95
Family Distribution by	414,468	24.86	18.50	21.12	35.51

23992

Income Level					
Household Distribution by Income Level	179,744	22.83	35.88	30.65	10.64
Census Median Family Income (MFI)		59,301	Median Housing Value		118,580
HUD-Adjusted MFI: 2008		78,200	Unemployment Rate		4.7%
Families Below the Poverty Level		12%			

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2008 HUD updated MFI

The Baltimore-Towson, MD MSA 12580 includes the counties of Anne Arundel, Baltimore, Carroll, Harford, Howard, Queen Anne's and Baltimore City. BNB designated all of the census tracts in Baltimore County, Baltimore City, and Howard County as its AA. Baltimore is located in the northern part of Maryland, and it consists of a mix of rural (northern part of the county) and suburban (south and south-central parts of the county) areas.

BNB's Baltimore-Towson, MD MSA 12580 AA contains a total of 445 census tracts. Of the 445 census tracts, 78 or 17.53% are low-income geographies, 119 or 26.74% are moderate-income geographies, 153 or 34.38% are middle-income geographies, 91 or 20.45% are upper-income geographies, and four or 0.90% have not been assigned an income classification.

The 2000 U.S. Census reported the total population of the AA at 1,653,288. Within the AA, there are 414,468 families and 647,910 households. There are 707,029 housing units, of which, 56% are owner-occupied, 25% are rental-occupied, and 8% are vacant housing units. The median housing cost is \$118,580.

The 2000 median income was \$59,301, and the 2008 HUD updated median family income is \$78,200. Approximately 25% of the families are low-income, 19% are moderate-income, 21% are middle-income, and 35% are upper-income. Approximately 12% are below the poverty level.

According to the 2008 business demographics, there are a total of 126,517 businesses in the AA. Approximately 66% of the businesses reporting have revenues less than \$1 million, approximately 6% have revenues greater than \$1 million, and the revenue was not reported for approximately 28% of the businesses. Approximately 9% of businesses are located in low-income geographies, 22% are located in moderate-income geographies, 38% are located in middle-income geographies, and 31% are located in upper-income geographies.

One of the two branches is located in this AA. According to the June 30, 2008 FDIC Summary of Deposit Market Share Report, BNB was ranked number 30 out of 78 institutions in the Baltimore-Towson, MD MSA 12580, with a 0.4% deposit market share. The largest competitors within the MSA are: Bank of America (25.6% deposit market share), Manufacturers & Traders Trust Co (10.72% market share), PNC Bank (9.23% market share), Wachovia Bank (8.54% market share), and Provident Bank of Maryland (6.32% market share). The 2007 Peer Mortgage Data indicated that BNB was

23992

ranked 142 out of 528 lenders in the Baltimore-Towson, MD MSA 12580 with a 0.08% market share.

Baltimore County is home to the federal headquarters of the U.S. Social Security Administration and the Centers for Medicare and Medicaid Services. Additionally, it has international headquarters for numerous large companies such as, McCormick & Company, Black & Decker, T. Rowe Price, Lockheed Martin, DB Diagnostic Systems, Proctor & Gamble, Shire Pharmaceuticals, and Maryland Steel. As of 2006, the Trade, Transportation and Utilities industry accounted for the largest portion of employment in the county; followed by Federal, State and Local government employment and professional and business services. In 2007, the largest employer in Baltimore County was the U.S. Social Security Administration (9,800 employees). A majority of the other major employers were related to the medical industry.

According to the June 2008 Bureau of Labor Statistics data, the unemployment rate for Baltimore ranged from 3.4% to 5.3% during the evaluation period, and was 4.7% as of September 2008.

Salisbury, MD MSA 41540 AA

Demographic Information for: Salisbury, MD MSA 41540					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	17	5.88	17.65	58.82	17.65
Population by Geography	84,644	1.76	16.22	62.91	19.10
Owner-Occupied Housing by Geography	21,413	0.29	9.77	67.72	22.22
Businesses by Geography	7,033	1.86	12.54	62.42	23.18
Farms by Geography	292	1.03	5.82	66.78	26.37
Family Distribution by Income Level	21,893	19.37	17.27	21.88	41.48
Household Distribution by Income Level	8,021	4.08	23.94	58.48	13.50
Census Median Family Income (MFI)		45,236	Median Housing Value		94,863
HUD-Adjusted MFI: 2008		60,700	Unemployment Rate		5.2%
Families Below the Poverty Level		12%			

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2008 HUD updated MFI

The Salisbury, MD MSA 41540 includes the counties of Somerset and Wicomico. BNB designated all of the census tracts in Wicomico County as its AA. Wicomico County is located in the southeastern part of Maryland. It is bordered by the Chesapeake Bay on the west and Delaware River on the north. Wicomico County is the commercial and industrial center of the lower eastern shore.

BNB's Salisbury, MD MSA 41540 AA contains a total of 17 census tracts. Of the 17 census tracts, one or 5.88% is a low-income geography, three or 17.65% are moderate-

23992

income geographies, 10 or 58.82% are middle-income geographies and three or 17.65% are upper-income geographies.

The 2000 U.S. Census reported the total population of the AA at 84,644. Within the AA, there are 21,893 families and 32,231 households. There are 34,401 housing units, of which, 62% are owner-occupied, 31% are rental-occupied, and 6% are vacant housing units. The median housing cost is \$94,863.

The 2000 median income was \$45,236, and the 2008 HUD updated median family income is \$60,700. Approximately 19% of the families are low-income, 17% are moderate-income, 22% are middle-income, and 42% are upper-income. Approximately 12% are below the poverty level.

According to the 2008 business demographics, there are a total of 7,033 businesses in the AA. Approximately 64% of the businesses reporting have revenues less than \$1 million, approximately 4% have revenues greater than \$1 million, and the revenue was not reported for approximately 31% of the businesses. Approximately 2% of businesses are located in the low-income geography, 13% are located in moderate-income geographies, 62% are located in middle-income geographies, and 23% are located in upper-income geographies.

One of BNB's two branches is located in the Salisbury, MD MSA 41540. According to the June 30, 2008 FDIC Summary of Deposit Market Share Report, BNB was ranked 11 out of 13 institutions, with a 1.98% deposit market share. The largest competitors within the MSA included PNC Bank (25.43% market share), Hebron Savings Bank (16.93% market share), Farmers Bank of Willards (11.75% market share), Bank of Delmarva (10.58% market share), and Manufacturers & Traders Trust Co. (8.76% market share). The 2007 Peer Mortgage Data indicated that BNB was ranked 41 out of 262 lenders in the Salisbury, MD MSA 41540, with a 0.43% market share.

The largest industry in Wicomico County is trade, transportation and utilities, followed by education, the health services industry, professional and business services and manufacturing. Top employers for the County, in 2007, were Peninsula Regional Medical Center, Perdue Farms and Salisbury University. A large portion of the major employers were either in the manufacturing or retail trade industry.

According to the June 2008 Bureau of Labor Statistics data, the unemployment rate for the Salisbury, MD MSA 41540 ranged from 3.8% to 6.2% during the evaluation period and was 5.2% as of September 2008.

We performed two community contacts. The first contact was a non-profit organization focused on sustaining and creating affordable housing and opportunities for homeownership in the Baltimore region. The community contact identified a need for safe and affordable housing; foreclosure prevention and intervention services; financial literacy and education; access to basic banking services (particularly in low- and very low-income neighborhoods); financial assistance for local non profits that work with low- to moderate-income communities and individuals; as well as monetary assistance (in the form of low cost loans or loan modifications) for homeowners who are facing

23992

foreclosure.

The second community contact was a regional economic development organization that brings businesses, government, and educational institutions together to promote the region as a good place to live and work. The community contact identified a need for technical and financing assistance for existing and new small businesses, as well as a need to support local community development activities in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

BNB’s performance under the lending test is satisfactory. BNB’s quarterly average net loan-to-deposit ratio is more than reasonable. A majority of BNB’s business loans were made in the bank’s combined AAs. The distribution of loans reflects reasonable penetration among businesses of different sizes. The bank’s distribution of loans represents a reasonable dispersion throughout census tracts of different income levels. All criteria of the lending test are documented below.

Loan-to-Deposit Ratio

BNB’s net loan-to-deposit ratio is more than reasonable given the bank’s size, financial condition, and AA credit needs. The bank’s quarterly average net loan-to-deposit ratio over the twenty-three quarters since the last CRA examination was 98.48%. During this time period, the ratio ranged from a quarterly low of 80.54% to a quarterly high of 114.38%. The loan-to-deposit ratio for BNB’s peer banks ranged from 65.83% to 116.64%, and the quarterly net loan-to-deposit ratio averaged 87.16% over the same 23 quarters. When we compared the quarterly average loan-to-deposit ratio for BNB with the 32 peer banks of similar asset sizes, we found BNB to have the fifth highest quarterly average net loan-to-deposit ratio. Additionally, BNB’s quarterly average net loan-to-deposit ratio has been increasing since the previous CRA examination, when the eleven quarter average net loan-to-deposit ratio was 71.32%

Lending in Assessment Area

A majority of BNB’s business loans were made in the bank’s AAs, meeting the standards for satisfactory performance. During the evaluation period, 65% of the number and 54% of the dollar amount of business loans were made within the AA. The following table details the bank’s lending within the AA by number and dollar amount of loans.

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	13	65.00	7	35.00	20	1,830,470	54.00	1,559,216	46.00	3,389,686

Source: 2000 Census Data & Sample of BNB’s business loans from 1/1/06 through 9/30/08

23992

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

The distribution of loans reflects reasonable penetration among businesses of different sizes, and BNB's record of lending to businesses of different incomes meets the standard for satisfactory performance.

Baltimore-Towson, MD MSA 12580 AA

The distribution of loans to businesses of different sizes reflects reasonable penetration among businesses of different sizes. BNB's record of lending to businesses of different sizes meets the standard for satisfactory performance.

The percentage of loans BNB made to businesses with gross annual revenues less than or equal to \$1 million is lower than the percentage of AA businesses with gross annual revenues less than or equal to \$1 million in terms of the number of loans originated. BNB's performance is reasonable when taking into consideration the business revenue was unavailable for 35% of the loans sampled, approximately 40% of the loan originations are \$100,000 or less, and 75% of the loan originations are \$250,000 or less.

The following table details the bank's performance in lending to businesses of different sizes.

Table 2A - Borrower Distribution of Loans to Businesses: Baltimore-Towson, MD MSA 12580 AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66.18%	5.69%	28.13%	100
% of Bank Loans in AA by #	50.00%	15.00%	35.00%	100
% of Bank Loans in AA by \$	24.41%	43.41%	32.19%	100

Source: Sample of BNB's business loans from 1/1/06 through 9/30/08; 2008 Dunn & Bradstreet data

Table 2C - Borrower Distribution of Loans to Businesses by Loan Size: Baltimore-Towson, MD MSA 12580 AA				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	8	40.00%	343,890	4.81%
\$100,001 - \$250,000	7	35.00%	1,333,707.36	18.66%
\$250,001 - \$500,000	3	15.00%	1,169,000	16.36%
\$500,001 - \$1,000,000	0	0.00%	0	0.00%
Over \$1,000,000	2	10.00%	4,298,992	60.16%

Source: Sample of BNB's business loans from 1/1/06 through 9/30/08; 2008 Dunn & Bradstreet data

23992

Salisbury, MD MSA 41540 AA

The distribution of loans to businesses of different sizes reflects reasonable penetration among businesses of different sizes, and BNB's record of lending to businesses of different sizes meets the standard for satisfactory performance.

The percentage of BNB's loans made to businesses with gross annual revenues less than or equal to \$1 million is near to the percentage of AA businesses with gross annual revenues less than or equal to \$1 million in terms of the dollar volume and the number of loans originated. The distribution by size of loans shows that approximately 45% of the loan originations are for \$100,000 or less.

The following table details the bank's performance in lending to businesses of different sizes.

Table 2A - Borrower Distribution of Loans to Businesses: Salisbury, MD MSA 41540 AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	64.34%	4.48%	31.18%	100
% of Bank Loans in AA by #	60.00%	15.00%	25.00%	100
% of Bank Loans in AA by \$	57.35%	3.91%	38.74%	100

Source: Sample of BNB's business loans from 1/1/06 through 9/30/08; 2008 Dunn & Bradstreet data

Table 2C - Borrower Distribution of Loans to Businesses by Loan Size: Salisbury, MD MSA 41540 AA				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	9	45.00%	632,608	12.28%
\$100,001 - \$250,000	6	30.00%	1,063,782	20.65%
\$250,001 - \$500,000	2	10.00%	676,980	13.14%
\$500,001 - \$1,000,000	2	10.00%	1,553,469	30.15%
Over \$1,000,000	1	5.00%	1,225,000	23.78%

Source: Sample of BNB's business loans from 1/1/06 through 9/30/08; 2008 Dunn & Bradstreet data

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels, and BNB's performance meets the standard for satisfactory performance. There were no conspicuous gaps identified within BNB's AA.

Baltimore-Towson, MD MSA 12580 AA

The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels, and BNB’s performance meets the standard for satisfactory performance.

The percentage of BNB’s loans made to businesses located in low-income geographies exceeds the percentage of businesses that are located in these geographies. The percentage of BNB’s loans made to businesses located in moderate-income geographies is significantly lower than the percentage of businesses that are located in these geographies. The bank’s overall performance is reasonable when considering the strong competition from larger financial institutions, and the location of BNB’s one branch in relation to the majority of the low- and moderate-income geographies in the bank’s AA.

The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Table 3A – Geographic Distribution of Loans to Businesses: Baltimore-Towson, MD MSA 12580 AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Small Business	8.71	20.00	21.98	10.00	38.01	25.00	31.24	45.00

Source: Sample of BNB’s business loans from 1/1/06 through 9/30/08; 2008 Dunn & Bradstreet data

Salisbury, MD MSA 41540 AA

The geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels, and the geographic distribution of business loans meets the standard for satisfactory performance.

According to the 2008 business demographics, there are only 131 businesses located in the one low-income geography, and there are only 882 businesses located in the three moderate-income geographies.

There were no loans made to businesses located in the one low-income geography. The percentage of BNB’s loans made to businesses located in the three moderate-income geographies is lower than the percentage of businesses that are located in these geographies. The bank’s overall performance is reasonable when taking into consideration the limited opportunities for BNB to lend to businesses located in low- and moderate-income geographies, the strong competition from larger financial institutions, and the bank’s limited presence in this AA.

The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Table 3A – Geographic Distribution of Loans to Businesses: Salisbury, MD MSA 41540 AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type Small Business	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	1.86	0.00	12.54	5.00	62.42	55.00	23.18	40.00

Source: Sample of BNB’s business loans from 1/1/06 through 9/30/08; 2008 Dunn & Bradstreet data

Responses to Complaints

BNB did not receive any complaints about its performance in helping to meet credit needs in the assessment area during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.