

PUBLIC DISCLOSURE

March 14, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Province Bank FSB
1205 River Road
Marietta, PA 17547
Docket #: 16137**

**Office of Thrift Supervision
Northeast Region
Harborside Financial Center Plaza Five, Suite 1600
Jersey City, NJ 07311**

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.



Office of Thrift Supervision

Department of the Treasury

Northeast Region

Northeast Region • Phone Number: (201) 413- 1000 • Fax: (201) 413- 7543
Harborside Financial Center Plaza Five, Suite 1600 Jersey City, New Jersey 07311

May 19, 2011

Board of Directors
Province Bank FSB
1205 River Road
Marietta, PA 17547

Board of Directors:

Enclosed is your institution's written Community Reinvestment Act (CRA) Performance Evaluation. The Office of Thrift Supervision (OTS) prepared the evaluation as of March 14, 2011.

In accordance with 12 C.F.R. 563e, your institution must make this written CRA Performance Evaluation available to the public within 30 business days of receiving it. You must place the evaluation in your CRA public file at your home office and at each branch within this time frame. You may not alter or abridge the evaluation in any manner. At your discretion, you may retain previous written CRA Performance Evaluation(s) with the most recent evaluation in your CRA public file.

Your institution may prepare a response to the evaluation. You may place the response in each CRA public file along with the evaluation. In the event your institution elects to prepare such a response, please forward a copy of it to this office.

All appropriate personnel, particularly customer contact personnel, need to be aware of the responsibilities that the institution has to make this evaluation available to the public. Consequently, we suggest that your institution review internal procedures for handling CRA inquiries, including those pertaining to the evaluation and other contents of the CRA public file.

We strongly encourage the Board of Directors, senior management, and other appropriate personnel to review this document and to take an active interest and role in the CRA activities of your institution.

Sincerely,

Patricia A. Cecconi
Assistant Director Compliance

Enclosure

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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, 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 CRA performance of Province Bank FSB. The Office of Thrift Supervision (OTS) prepared the evaluation as of March 14, 2011. OTS evaluates performance in assessment area(s) delineated by the institution rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. OTS rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 563e.

Institution

Overall Rating

INSTITUTION'S CRA RATING: Satisfactory

Province Bank FSB (Province, institution or bank) originated a reasonable number of Home Mortgage Disclosure Act (HMDA) reportable loans during the review period, a sufficient number of which were inside its defined assessment area. Lending was adequately dispersed among borrowers and geographies of different income levels.

The bank did not receive any complaints regarding its CRA performance, nor were there any violations of the substantive provisions of the laws and regulations prohibiting discrimination or other illegal credit practices identified at the concurrent comprehensive examination.

Scope of Examination

We evaluated Province under the small savings association CRA examination procedures. The evaluation period was from November 1, 2006, and HMDA data was reviewed for the 36-month period of January 1, 2008 to December 31, 2010. This included residential mortgage loans for the purpose of home purchase, refinance, or home improvement.

Description of Institution

Province is a federally-chartered stock institution and a wholly owned subsidiary of Donegal Financial Services Corporation (DFSC). The institution offers a variety of loan products, including fixed and adjustable-rate loans for the purchase, refinance and construction of one-to four-family and multi family dwellings. Commercial real estate and land development loans are available, as are a variety of consumer loans, including home equity loans and lines of credit, home improvement loans, auto loans and secured and unsecured personal loans. The bank also invests in mortgage backed securities.

The bank promotes, originates and sells loans to the Pennsylvania Housing Finance Agency in order to make financing available to the lower income segment of its market.

Institution (continued)

Since the prior CRA evaluation, Province increased its total loan portfolio by \$22.2 million (55.2 percent). Residential mortgage lending, as a percentage of total assets, increased by 2.7 percent to 31.1 percent since September 30, 2006. Additionally, nonresidential mortgage lending increased significantly by 20.0 percent, whereas commercial nonmortgage lending decreased by 9.0 percent during the same time period. As of December 31, 2010, the total loan portfolio equaled \$62.4 million.

Table 1 indicates the dollar amount, percentage to total loans, and percentage to total assets of each loan category.

Loan Category	Amount (\$000's)	Percent of Total Loans	Percent of Total Assets
Residential Mortgage	\$30,538	49.0%	31.1%
Nonresidential Mortgage	26,795	43.0%	27.2%
Commercial Nonmortgage	2,586	4.1%	2.6%
Consumer	2,456	3.9%	2.5%
Total	\$62,375	100.0%	63.4%

Based on the number of its branches and deposits, Province's market share within the assessment area totaled 1.92 percent in 2008 and 1.90 percent in 2009 in both categories. The institution ranked 12th and 11th, by number of branches in 2008 and 2009, respectively, as well as 14th by number of deposits both years. These rankings compare favorably with its market share ranking of 19th in overall HMDA-reportable lending for the same two years.

There are no apparent financial, legal, or regulatory impediments which would prevent the bank from meeting community credit needs. Province was rated "Satisfactory" at the previous CRA evaluation dated November 6, 2006.

Description of Lancaster County Assessment Area

Province's assessment area consists of the northern part of Lancaster County, PA, the most densely populated part of the county where all three branches are located. The assessment area, located in the Lancaster Metropolitan Statistical Area (MSA) #29540, contains 68 census tracts ("geographies").

Table 2 illustrates demographic data on population, families, and housing units within the assessment area.

Institution (continued)

Demographic Data	2000 Census
Population	332,459
Total Families	87,943
1-4 Family Units	110,250
Multi-family Units	18,210
% Owner-Occupied Units	65%
% Rental-Occupied Units	31%
% Vacant Housing Units	4%
Weighted Average Median Housing	\$113,222

The assessment area is economically diversified and relatively stable. Lancaster county’s population grew to 500 thousand by 2008, representing population growth of 6.7 percent since 2000. Economic growth has been moderate. Major industries include tourism, agriculture, government services and education, healthcare/retirement facilities and manufacturing. The jobless rate as of December 2010 was 7.2 percent compared with a state average of 8.5 percent and a national average of 9.4 percent. Recovery from the recent economic recession is expected to continue at a slow pace.

Table 3 indicates the number of geographies in each income level and compares it to the distribution of families living in those geographies and to 1-4 family dwellings located within those geographies.

Geog Inc Level	Geographies		Total Area Families		1-4 Family Dwellings	
	#	%	#	%	#	%
2000 Census:						
Low	5	7.4%	3,114	3.5%	3,901	3.5%
Moderate	10	14.7%	7,989	9.1%	13,289	12.1%
Middle	46	67.6%	64,493	73.4%	78,790	71.5%
Upper	7	10.3%	12,347	14.0%	14,270	12.9%
Total	68	100.0%	87,943	100.0%	110,250	100.0%

While low- and moderate-income (LMI) geographies represent 22.1 percent of total geographies in the assessment area, only 3,901 of the assessment area’s one-to-four family dwelling units, representing 3.5 percent of total one-to-four family dwellings, are located in low-income geographies. This factor limits residential lending opportunities in these areas.

According to 2000 census data, 35.3 percent of the families in the assessment area are classified as low- to moderate-income, with 5.3 percent of the families reporting income below the poverty level. The Department of Housing and Urban Development (HUD) annually adjusts the 2000 census data to

Institution (continued)

update the income levels. The adjusted figures are used in the Lending to Borrowers of Different Incomes section of this Performance Evaluation. Table 4(a) indicates the median family income ranges of each income category based on the 2010 HUD adjustment; table 4(b) reflects the updated HUD median family income for each year during the review period; and table 4(c) shows the distribution of families in each income range of the assessment area.

Income Category (As % of MSA Median)	Income Ranges	
	From	To
Low (< 50%)	\$1	\$33,349
Moderate (50% - 79%)	\$33,350	\$53,359
Middle (80% - 119%)	\$53,360	\$80,039
Upper (>= 120%)	\$80,040	+

Year	Amount
2008	\$64,200
2009	\$67,400
2010	\$66,700

* Based on HUD 2010 Median Family Income of the MSA

Family Income Category (As a % of MSA Median)	2000 Census Data	
	Number	Percent
Low (< 50%)	13,922	15.8%
Moderate (50% - 79%)	17,089	19.4%
Middle (80% - 119%)	22,890	26.0%
Upper (>= 120%)	34,042	38.8%
Total	87,943	100.0%

As part of this evaluation, we met with a local community development corporation contact to help us develop an understanding of community credit needs and how local financial institutions are meeting those needs. The contact noted that banking and credit needs of the Lancaster County area are sufficiently served by the banks throughout the county. The contact had a positive opinion about local financial institutions' participation in initiatives directed towards providing affordable housing options.

Conclusions with Respect to Performance Tests

Loan to Deposit Ratio

Province's loan-to-deposit (LTD) ratio meets the standard for satisfactory performance, and reflects a reasonable effort to meet the credit needs of the local community.

Province is the only OTS regulated institution headquartered in the Lancaster MSA. For the eight quarters ended September 30, 2008 through June 30, 2010, the institution's LTD ratios ranged from a

Institution (continued)

low of 69.9 to a high of 81.4 with an average of 76.9 percent. Although Province’s LTD ratio lags the eight-quarter average of 89.0 percent for all OTS Northeast Region regulated thrifts, as well as the 88.8 percent ratio of the 35 OTS regulated institutions operating in Pennsylvania, the institution’s average ratio at this examination has substantially improved since the prior evaluation’s twelve quarter average ending September 30, 2006 of 46.5 percent.

Lending in the Assessment Area

The institution meets the standards for satisfactory performance in this criterion, with an adequate percentage of the number of loans originated within the assessment area.

Table 5 illustrates the total number and dollar amount of HMDA-reportable loans (home purchase, refinance and home improvement loans) originated in and outside the assessment area during the 36-month HMDA review period ending December 31, 2010. For comparison purposes, the table reflects lending activity by each appropriate year during the review period.

Table 5 - Concentration of Residential Loans *					
1/1/2008 – 12/31/2010					
(Dollars in thousands)					
Period By Year	In Assessment Area		Outside Assessment Area		Total HMDA Loans
By Number:	#	%	#	%	#
2008	150	54%	127	46%	277
2009	179	55%	149	45%	328
2010	116	60%	76	40%	192
Total	445	56%	352	44%	797
By \$ Amount:	\$ Amt	%	\$ Amt	%	\$ Amt
2008	\$17,574	45%	\$21,075	55%	\$38,649
2009	22,825	48%	24,913	52%	47,738
2010	14,911	57%	11,231	43%	26,142
Total	\$55,310	49%	\$57,219	51%	\$112,529

* Percents are based on total loans originated during applicable year

The percentage of loans within the assessment area reflected an adequate commitment to community credit needs, despite total HMDA loan originations inside the assessment area trending downward from the prior to evaluation’s percentages of 91.0 and 87.3 percent, respectively, due when the market area was larger. HMDA-reporting institutions in the assessment area totaled 287 and 279 in 2008 and 2009, respectively. Among the local competition, Province ranked 19th in lending both years, but its market share decreased slightly from 1.55 percent to 1.43 percent during that time period.

Institution (continued)

Lending to Borrowers of Different Incomes

Province meets the standard for satisfactory performance by adequately dispersing its lending among borrowers of different income levels.

As part of our lending analysis, we reviewed the bank’s distribution of loans among borrowers of different income levels within the assessment area. Table 6 illustrates loan originations, categorized by borrower income level, reported by Province Bank during the review period, and compares this activity to the 2008 and 2009 aggregate lender’s performance.

Borrower Inc. Level	2008		2009		2010		Review Period 1/1/08 – 12/31/10		Aggregate	
	#	%	#	%	#	%	#	%	% by #	% by #
By Number:										
Low	10	6.7%	17	9.5%	9	7.8%	36	8.1%	8.5%	7.9%
Moderate	23	15.3%	35	19.6%	25	21.6%	83	18.7%	22.9%	23.9%
Middle	41	27.3%	54	30.2%	30	25.8%	125	28.1%	28.5%	27.1%
Upper	66	44.0%	69	38.5%	46	39.7%	181	40.7%	35.8%	33.4%
Income NA	10	6.7%	4	2.2%	6	5.1%	20	4.4%	4.3%	7.7%
Total	150	100.0%	179	100.0%	116	100.0%	445	100.0%	100.0%	100.0%
By \$ Amt:										
Low	\$754	4.3%	\$962	4.2%	\$624	4.2%	\$2,340	4.2%	4.8%	4.6%
Moderate	1,714	9.8%	3,931	17.2%	2,364	15.9%	8,009	14.5%	17.7%	18.9%
Middle	3,553	20.2%	6,877	30.1%	3,000	20.1%	13,430	24.3%	25.6%	25.5%
Upper	7,372	41.9%	9,975	43.8%	6,307	42.3%	23,654	42.8%	43.1%	42.4%
Income NA	4,181	23.8%	1,080	4.7%	2,616	17.5%	7,877	14.2%	8.8%	8.6%
Total	\$17,574	100.0%	\$22,825	100.0%	\$14,911	100.0%	\$55,310	100.0%	100.0%	100.0%

During the review period, Province’s HMDA-reportable loan distribution to LMI borrowers inside the assessment area averaged 26.8 percent. This represents a modest improvement from the 26.0 percent penetration to LMI borrowers during the prior CRA evaluation period. The percentage of the total dollar amount of HMDA-reportable loans originated to LMI borrowers during this review, 18.7 percent, was slightly lower than the 19.8 percent reported at the previous evaluation.

The percentage of loans on a volume basis to LMI borrowers lagged that of the aggregate HMDA reporters in 2008 and 2009, respectively. Aggregate reporters also recorded a higher percentage of HMDA loans to LMI borrowers on a dollar basis in those two years. Nonetheless, Province’s market share percentage of loans to LMI borrowers inside the assessment area increased from 1.08 percent in 2008 to 1.30 percent in 2009. Province ranked 27th of the 172 HMDA reporting institutions in 2008

Institution (continued)

and 22nd of the 182 reporters in 2009, compared to their market share ranking of 19th in overall HMDA-reportable lending in both 2008 and 2009.

Geographic Distribution of Loans

Province meets the standard for satisfactory performance by adequately dispersing its lending among geographies of different income levels.

As part of our lending analysis, we reviewed the bank’s distribution of loans among geographic areas of different income levels within the assessment area. Table 7 illustrates loan originations, categorized by geography income level, reported by Province Bank during the review period, and compares this activity to the 2008 and 2009 aggregate lender’s performance.

Table 7 - Distribution of Province Bank’s HMDA-Reportable Loans By Geography Income Level in the Assessment Area (Dollars in thousands)										
Geography Inc. Level	2008		2009		2010		Review Period 1/1/08 – 12/31/10		Aggregate	
	#	%	#	%	#	%	#	%	% by #	% by #
By Number:										
Low	2	1.3%	3	1.7%	3	2.6%	8	1.8%	2.0%	1.0%
Moderate	14	9.3%	7	3.9%	11	9.5%	32	7.2%	9.1%	6.2%
Middle	112	74.7%	132	73.7%	81	69.8%	325	73.0%	74.4%	75.5%
Upper	22	14.7%	37	20.7%	21	18.1%	80	18.0%	14.5%	17.3%
Total	150	100.0%	179	100.0%	116	100.0%	445	100.0%	100.0%	100.0%
By \$ Amt:										
Low	\$98	0.6%	\$217	1.0%	\$99	0.7%	\$414	0.7%	1.4%	0.5%
Moderate	2,485	14.1%	791	3.5%	2,582	17.3%	5,858	10.6%	5.8%	3.8%
Middle	13,185	75.0%	16,885	74.0%	9,101	61.0%	39,171	70.9%	73.4%	73.4%
Upper	1,806	10.3%	4,932	21.5%	3,129	21.0%	9,867	17.8%	19.4%	22.3%
Total	\$17,574	100.0%	\$22,825	100.0%	\$14,911	100.0%	\$55,310	100.0%	100.0%	100.0%

Province’s HMDA-reportable loan distribution in LMI geographies averaged 9.0 percent during the review period, which is an increase from the 8.0 percent penetration in LMI geographies during the prior CRA evaluation period. The dollar amount of HMDA-reportable loans originated in LMI geographies during this review, 11.3 percent, is higher than the 7.1 percent reported at the previous evaluation.

The percentage of loans on a volume basis lagged that of the aggregate HMDA reporters in 2008 and 2009. The institution surpassed the aggregate’s performance of HMDA loans in LMI geographies on a dollar basis in 2008 as well as in 2009. Province’s market share percentage of loans in LMI geographies declined slightly from 1.48 percent in 2008 to 1.10 percent in 2009. Province ranked

Institution (continued)

20th of the 114 and 101 HMDA reporting institutions in 2008 and 2009, respectively, comparing similarly to their ranking of 19th in overall HMDA-reportable lending in both years.

Response to Complaints

During the review period, the institution received no known written complaints pertaining to its performance in helping to meet the credit needs within the assessment area.

Fair Lending or Other Illegal Credit Practices Review

We performed an evaluation of compliance with consumer laws and regulations during the concurrent comprehensive examination of the bank. No violations of the substantive provisions of the laws and regulations prohibiting discrimination or other illegal credit practices were identified during that examination.

CRA Rating Definitions

There are four separate and distinct CRA assessment methods set forth in the CRA: the lending, investment, and service tests for large, retail institutions; the streamlined examination method for small institutions; the community development test for wholesale and limited purpose institutions; and the strategic plan option for all institutions. OTS will assign an institution one of the four assigned ratings required by Section 807 of the CRA:

1. "Outstanding record of meeting community credit needs."
2. "Satisfactory record of meeting community credit needs."
3. "Needs to improve record of meeting community credit needs."
4. "Substantial noncompliance in meeting community credit needs."

OTS judges an institution's performance under the test and standards in the rule in the context of information about the institution, its community, its competitors, and its peers. Among the factors to evaluate in an examination are the economic and demographic characteristics of the assessment area(s); the lending, investment, and service opportunities in the assessment area(s); the institution's product offerings and business strategy; the institution's capacity and constraints; the prior performance of the institution; in appropriate circumstances, the performance of a similarly situated institution; and other relevant information. An institution's performance need not fit each aspect of a particular rating profile in order to receive that rating, and exceptionally strong performance with respect to some aspects may compensate for weak performance in others. The institution's overall performance, however, must be consistent with safe and sound banking practices and generally with the appropriate rating profile. In addition, OTS adjusts the evaluation of an institution's performance under the applicable assessment method in accordance with §563e.21 and §563e.28, which provide for adjustments on the basis of evidence of discriminatory or other illegal credit practices.