

PUBLIC DISCLOSURE

February 7, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of the Commonwealth

821120

403 Boush Street

Norfolk, Virginia 23510

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

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.

TABLE OF CONTENTS

Institution Rating.....	1
Institution	
Scope of Examination.....	1
Description of Institution.....	1
Conclusions with Respect to Performance Tests.....	3
Virginia Beach-Norfolk-Newport News, VA-NC Multistate Metropolitan Statistical Area	
Multistate Metropolitan Area Rating.....	6
Scope of Examination.....	6
Description of Institution’s Operations in the Virginia Beach-Norfolk- Newport News, VA-NC Multistate MSA Assessment Area.....	6
Conclusions with Respect to Performance Tests.....	8
State of North Carolina	
North Carolina Statewide Rating.....	13
Scope of Examination.....	13
Description of Institution’s Operations in the Dare, NC Nonmetropolitan Assessment Area.....	13
Conclusions with Respect to Performance Tests.....	15
Appendices	
CRA Appendix A: Scope of Examination.....	18
CRA Appendix B: Summary of State and Multistate Metropolitan Area Ratings.....	19
CRA Appendix C: Loan, Branch, and Deposit Volume by Assessment Area.....	20
CRA Appendix D: Glossary.....	21

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is considered reasonable given the bank's size, financial condition, and credit needs of the bank's assessment areas.
- A substantial majority of the institution's Home Mortgage Disclosure Act (HMDA) and small business loans were originated to borrowers within the bank's assessment areas.
- The bank's borrower distribution performance (lending to low- and moderate-income borrowers and small businesses having annual revenues of \$1 million or less) is reasonable in the bank's multistate assessment area and poor in the North Carolina assessment area. Overall, the bank's performance is considered reasonable because more weight was placed on the bank's performance in its multistate assessment area where its operations are concentrated.
- The bank's geographic distribution performance (lending to low- and moderate-income census tracts) is considered excellent in the bank's multistate assessment area and reasonable in the North Carolina assessment area. The bank's overall geographic distribution performance is considered excellent and reflects the relative weighting and strength of the bank's performance in its multistate assessment area.
- The bank's responsiveness to the community development needs of its assessment areas is adequate in the multistate assessment area and poor in North Carolina. Overall, the bank's performance is rated Satisfactory because of the adequate performance in its primary market, the multistate assessment area.
- The institution has not received any complaints regarding its Community Reinvestment Act (CRA) performance since the previous evaluation.

SCOPE OF EXAMINATION

The institution was evaluated using the interagency examination procedures developed by the Federal Financial Institutions Examination Council (FFIEC). Consistent with these procedures, residential mortgage and small business loan originations reported by the institution during 2008 and 2009 were reviewed. The Community Development Test considers all applicable community development loans and service activities since the previous evaluation (February 2, 2009). According to the FFIEC's procedures, all qualified investments outstanding as of the examination date are also considered regardless of when made.

DESCRIPTION OF INSTITUTION

Bank of the Commonwealth (BOTC) is headquartered in Norfolk, Virginia, and operates a total of 21 full-service branches within southeastern Virginia and northeast North Carolina. The bank is a wholly-owned subsidiary of Commonwealth Bancshares, a single-bank holding company, also headquartered in Norfolk, Virginia. The bank received a satisfactory rating at its prior CRA evaluation dated February 2, 2009. While the bank does not face any legal impediments that would restrain it from meeting the credit needs of its assessment areas, deteriorating economic conditions during the evaluation period have impacted the bank's operations.

As of December 31, 2010, BOTC had \$1.1 billion in assets of which 79.5% were net loans and .9% were securities. Various deposit and loan products are available through the institution including loans for residential mortgage, business, and consumer purposes. The composition of the loan portfolio (using gross loans) as of December 31, 2010, is presented below:

Composition of Loan Portfolio

Loan Type	12/31/2010	
	\$(000s)	%
Secured by 1-4 Family dwellings	245,858	25.8
Multifamily	32,808	3.4
Construction and Development	109,505	11.5
Commercial & Industrial/ NonFarm NonResidential	556,218	58.4
Consumer Loans and Credit Cards	8,493	0.9
Agricultural Loans/ Farmland	35	0.0
All Other	143	0.0
Total	953,060	100.0

As indicated in the preceding table, the bank is an active commercial/small business and residential mortgage lender. The volume of other types of lending is relatively small in comparison.

The bank serves two assessment areas located along the east coast of Virginia and North Carolina. The following table reflects the composition of the bank's two assessment areas.

Multistate MSA Assessment Area	City/County	State	Census Tracts Included
Virginia Beach-Norfolk-Newport News, VA-NC MSA	Chesapeake	VA	All
	Currituck	NC	All
	Norfolk	VA	All
	Portsmouth	VA	All
	Suffolk	VA	All
	Virginia Beach	VA	All

Single State Assessment Area	City/County	State	Census Tracts Included
Dare, NC NonMSA	Dare	NC	All

The bank has not opened or closed any branch offices since its previous CRA evaluation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

Based on the FFIEC's evaluation procedures, an overall rating and ratings for the Lending and Community Development Tests are assigned to the institution, the multistate MSA, and the state of North Carolina. Both of the bank's assessment areas were reviewed utilizing the FFIEC's full-scope procedures. In evaluating the institution's overall performance, greater weight was placed on the bank's performance in its multistate MSA assessment area as a substantial majority of its operations are located there. Detailed information about the bank's activities (loan volume, branch locations, and deposit accounts) within each assessment area is included in Appendix C.

An analysis of lending during the review period is discussed in greater detail in subsequent sections of this evaluation. While residential mortgage (HMDA) and small business loan data from calendar years 2008 and 2009 were analyzed and considered in the evaluation, unless noted otherwise, lending tables reflect bank and aggregate data only for 2009. If the bank's performance during 2008 is not similar to that in 2009, pertinent additional performance information is provided for 2008. Area demographic and market aggregate data are used as proxies for demand when evaluating the bank's HMDA lending performance. Demographic data are from the 2000 census, Dun and Bradstreet (D&B) business data are from 2009, and aggregate data are from 2008 and 2009.

When evaluating the geographic and borrower distribution for a specific loan category within an assessment area, primary emphasis is placed on the number of loans originated or purchased. To arrive at an overall assessment area level conclusion regarding the distribution of lending, performance in each loan category is then weighted by dollar volume of such loans made in the assessment area. The institution's overall ratings is based on the performance of each market area and primary consideration is given to the dollar volume each market contributes to the overall activity considered in the evaluation. The review of the bank's community development activities is based on the number and amount of community development loans, the extent to which the bank provides community development services, and its responsiveness to identified community development lending, investment, and service needs.

Loan-To-Deposit Ratio

The bank's loan-to-deposit ratio is one measure of its lending relative to its capacity. The bank's loan-to-deposit ratio as of December 31, 2010, equaled 90.8% and averaged 99.6% for the eight-quarter period ending December 31, 2010. In comparison, the average of quarterly loan-to-deposit ratios for all banks headquartered in metropolitan areas of Virginia and of similar asset size to BOTC ranged from 79.4% to 90.7% for the same time period. Since December 31, 2008, bank assets and deposits have increased by 1.1% and 22.6%, respectively, while bank loans have decreased by 12%. Within the context of CRA, the bank's loan-to-deposit ratio is considered reasonable given the institution's size, financial condition, and local credit needs.

Lending In Assessment Area

To determine the institution's volume of lending within its assessment areas, the geographic location of the bank's HMDA and small business originations during 2008 and 2009 were considered. The lending distribution is represented in the following table for the combined assessment areas.

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

Loan Type	Inside				Outside			
	#	%	\$(000)	%	#	%	\$(000)	%
Home Purchase	238	95.2	58,248	94.5	12	4.8	3,402	5.5
Home Improvement	26	96.3	3,344	98.5	1	3.7	52	1.5
Multi-Family Housing	14	100.0	20,131	100.0	0	0.0	0	0.0
Refinancing	53	93.0	11,177	84.7	4	7.0	2,026	15.3
<i>Total HMDA related</i>	331	95.1	92,900	94.4	17	4.9	5,480	5.6
Small Business	207	94.1	41,410	93.2	13	5.9	3,009	6.8
TOTAL LOANS	538	94.7	134,310	94.1	30	5.3	8,489	5.9

A substantial majority of the number and dollar amount of HMDA and small business loans were extended within the bank’s assessment areas. Overall, the institution’s level of lending within its assessment areas is considered highly responsive to community credit needs.

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

Within the bank’s market areas, a large volume of small business lending activity was reported by specialized lenders who often originate small business loans in the form of credit cards. These loans tend to be much smaller in size than traditional small business bank loans, and a substantial majority of such loans do not have revenue data reported. The presence of these lenders produces a smaller market share for traditional lenders and tends to understate the percentage of aggregate lending to businesses with annual revenues of \$1 million or less. Consequently, the presence of these lenders was considered as an aspect of performance context when evaluating the level and distribution of small business lending.

The bank’s borrower distribution performance is considered reasonable within the multistate MSA market and poor within North Carolina. Given the strength of the bank’s performance in the multistate MSA market and the proportion of overall bank lending, deposit, and branch activity it represents, the performance in this market is given greater weight when evaluating the bank’s overall borrower distribution performance, which is considered reasonable. The bank’s performance by assessment area and product type is discussed in greater detail later in this evaluation.

Geographic Distribution of Loans

The bank’s geographic distribution performance is considered excellent within the multistate MSA market and reasonable within North Carolina. Weighing performance in the multistate MSA more heavily, the bank’s overall geographic distribution performance is considered excellent.

Community Development Loans, Investments, and Services

During the evaluation period, the bank’s community development activity was limited to the multistate MSA market. Within this market, the bank’s qualified activities were concentrated in lending and services and rated Satisfactory. The bank did not have any qualified activities during the evaluation period within North Carolina. Given the absence of community development activity in North Carolina, the bank’s performance is rated Needs to Improve. The bank’s overall Community Development Test performance is rated Satisfactory. In reaching this conclusion, more weight was placed on the bank’s performance in the multistate MSA market because of the bank’s significantly larger market presence in that assessment area.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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

MULTISTATE METROPOLITAN AREA

CRA RATING FOR VIRGINIA BEACH-NORFOLK-NEWPORT NEWS, VA-NC MULTISTATE MSA: Satisfactory

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

Major factors supporting the rating include:

- The bank's lending to borrowers of different income levels and businesses of different sizes varies from poor to excellent by product and year. Overall, the bank's HMDA performance is considered reasonable and its small business performance is excellent. On a combined product basis, the bank's borrower distribution performance is considered reasonable.
- The bank's lending in low- and moderate-income census tracts is excellent for HMDA and reasonable for small business lending. The bank's overall geographic distribution performance is considered excellent given the higher dollar volume of HMDA lending and the strength of the bank's HMDA loan performance.
- An adequate level of community development activity through participation in community development loans and community development services was noted.

SCOPE OF EXAMINATION

BOTC serves one assessment area within the Virginia-Beach-Norfolk-Newport News, VA-NC MSA. The bank operates branches in both the Virginia and North Carolina portions of the MSA. Because the bank's operations are contained within a single assessment area, the evaluation of its performance within the multistate MSA is based entirely on this single assessment area.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN VIRGINIA BEACH-NORFOLK-NEWPORT NEWS, VA-NC MSA

The bank's assessment area includes a portion of the Virginia Beach-Norfolk-Newport News, VA-NC MSA. According to 2000 census data, the area has a population of 1,041,276 and a median housing value of \$108,329. The owner-occupancy rate for the assessment area equals 58.5% and is similar to the entire MSA (58.8%) but lags the owner-occupancy rate for the Commonwealth of Virginia (63.3%) and the State of North Carolina (61.6%). The area's poverty rate (8.6%) is similar to that of the entire MSA (8.4%) and statewide North Carolina (9%) but exceeds Virginia's rate (7%). The 2010 median family income for the Virginia Beach-Norfolk-Newport News, VA-NC MSA is \$68,200. The following table includes pertinent data regarding the bank's assessment area.

Assessment Area Demographics

Virginia Beach-Norfolk-Neport News, VA-NC MSA								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	21	8.1	12,631	4.7	5,126	40.6	51,484	19.3
Moderate	72	27.9	57,409	21.5	8,842	15.4	50,127	18.8
Middle	93	36.0	110,684	41.4	6,872	6.2	61,960	23.2
Upper	70	27.1	86,555	32.4	2,093	2.4	103,708	38.8
NA	2	0.8	0	0.0	0	0.0		
Total	258	100.0	267,279	100.0	22,933	8.6	267,279	100.0
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	5,165	2.2	19,548	5.2	7,787	39.8	79,124	20.9
Moderate	37,235	15.7	90,823	24.0	15,268	16.8	66,174	17.5
Middle	104,023	43.8	152,879	40.3	11,731	7.7	80,230	21.2
Upper	91,219	38.4	115,721	30.5	5,088	4.4	153,443	40.5
NA	0	0.0	0	0.0	0	0.0		
Total	237,642	100.0	378,971	100.0	39,874	10.5	378,971	100.0
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	1,452	3.2	1,256	3.1	133	4.9	63	2.9
Moderate	9,120	19.9	7,906	19.4	706	25.9	508	23.1
Middle	18,492	40.4	16,519	40.5	1,096	40.2	877	39.9
Upper	16,524	36.1	15,049	36.9	746	27.4	729	33.2
NA	158	0.3	95	0.2	42	1.5	21	1.0
Total	45,746	100.0	40,825	100.0	2,723	100.0	2,198	100.0
Percentage of Total Businesses:				89.2		6.0		4.8

*NA-Tracts without household or family income as applicable

The bank operates 19 full-service branches within this assessment area. According to recent (June 30, 2010) data compiled by the Federal Deposit Insurance Corporation (FDIC), the bank ranked 6th out of 30 institutions in local deposit market share. BOTC holds 5% of the assessment area’s deposits (credit union deposits are not included).

Employment opportunities are available within a variety of industries including healthcare, the military, food and retail services, municipal governments, and construction. Major area employers include Sentara Healthcare, U.S Navy, Food Lion, Riverside Health System, McDonald’s Corporation, Bon Secours Health System, and area school systems. Current and recent periodic unemployment rates are included in the following table:

Unemployment Rate Trend								
Geographic Area	2009				2010			
	March	June	Sept	Dec	March	June	Sept	Dec
Chesapeake, VA	6%	7%	6.8%	6.7%	7%	7.1%	6.7%	6.6%
Currituck, NC	8.2%	6.4%	5.2%	9.1%	8.8%	5.1%	4.2%	8.2%
Norfolk, VA	8.1%	9.3%	9%	9.1%	9.3%	9.7%	9%	8.6%
Portsmouth, VA	7.9%	9%	9%	9.5%	9.4%	9.3%	8.8%	8.3%
Suffolk, VA	6.6%	7.2%	7%	6.9%	7.8%	8.3%	7.9%	6.8%
Virginia Beach, VA	5.8%	6.4%	6.3%	6.4%	6.7%	6.4%	6.1%	6.1%
Virginia Beach-Norfolk-Newport News, VA-NC MSA	6.7%	7.4%	7.1%	7.3%	7.7%	7.5%	7.1%	7%
Commonwealth of Virginia	6.7%	7.2%	6.9%	7%	7.4%	7%	6.5%	6.4%
State of North Carolina	10.6%	11.2%	10.6%	11.1%	11.5%	10.6%	9.4%	9.7%

Unemployment rates are somewhat higher than 24 months earlier in most, but not all, of the assessment area's cities and counties. Elevated unemployment rates may adversely affect a bank's ability to extend credit as unemployed applicants often have diminished repayment capacity.

Two local economic officials were contacted during the evaluation to discuss local economic conditions and area credit needs. One contact indicated that local economic conditions remain challenging and the number of small businesses in need of working capital loans has increased. The contact suggested that small business funding seems to have become more difficult to obtain.

The other contact stated that local economic conditions would be worse if not for the large military presence within the local market. The contact expressed some concern regarding the potential closure or reduction in operations of the U. S. Joint Forces Command (JFCOM) located in northern Suffolk and Norfolk. Currently, JFCOM employs approximately 4,000 civilian and contracted workers from the metropolitan area. The contact also suggested that there is a need for more affordable/first-time homebuyer housing within the market. The contact explained that several such construction projects have stalled and remain unfinished, in part, because of a reduction in available financing for first-time and lower-income homebuyers.

Comments from the contacts suggest that there are credit needs within the assessment area for local financial institutions to consider.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

During 2008 and 2009, the bank originated \$78.5 million in HMDA loans and \$41.3 million in small business loans within the assessment area. Accordingly, the bank's HMDA lending performance is given more weight than the small business lending performance when evaluating overall lending performance. During the review period, one small farm loan totaling \$71,000 was extended within this assessment area but is not included in the following analysis.

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

Within this assessment area, the bank's residential mortgage (HMDA) borrower distribution performance is considered reasonable, while its small business performance is considered excellent. Overall, borrower distribution performance is reasonable. In reaching this conclusion, more weight was placed on the bank's HMDA performance than its small business performance because of the larger dollar volume of such lending within the assessment area.

Distribution of HMDA Loans by Income Level of Borrower

Virginia Beach-Norfolk-Neport News, VA-NC MSA (2009)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
	(56) Home Purchase				(18,949)			
Low	2	3.6	461	2.8	954	5.0	114,169	2.6
Moderate	11	19.6	1,953	11.7	6,000	31.7	1,037,318	23.7
	(8) Refinance				(32,940)			
Low	1	12.5	110	15.0	2,176	6.6	271,009	3.9
Moderate	3	37.5	263	35.8	6,940	21.1	1,075,792	15.4
	(9) Home Improvement				(2,334)			
Low	0	0.0	0	0.0	154	6.6	8,678	4.0
Moderate	1	11.1	30	1.5	541	23.2	38,149	17.7
	(0) Multi-Family				(0)			
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
	HMDA Totals							
Low	3	4.1	571	2.9	3,284	6.1	393,856	3.4
Moderate	15	20.5	2,246	11.5	13,481	24.9	2,151,259	18.6
Middle	16	21.9	3,798	19.5	15,496	28.6	3,075,494	26.6
Upper	39	53.4	12,857	66.0	21,962	40.5	5,948,923	51.4
Total	73	100.0	19,472	100.0	54,223	100.0	11,569,532	100.0
<i>Unknown</i>	<i>59</i>		<i>16,603</i>		<i>17,249</i>		<i>3,990,184</i>	

() represents the total number of bank loans for the specific Loan Purpose where income is known
Percentage's (%) are calculated on all loans where incomes are known

The bank's proportion of home purchase lending to low-income borrowers compares favorably to the proportion of these loans made in aggregate to such borrowers. Its lending to moderate-income borrowers does not compare as favorably to the aggregate; but, when taking into account the percentage of assessment area moderate-income families (18.8%), the bank's home purchase lending is considered reasonable. The bank's much more modest refinance lending distribution is excellent, though its home improvement performance is poor. Because loans for multi-family housing were not reported by either the bank or aggregate lenders, the performance of this loan type is not a factor in the analysis.

Overall, 4.1% of the bank's HMDA loans were made to low-income borrowers. This level of lending lags the percentage of low-income families within the assessment area (19.3%), but compares more favorably to the aggregate lending level to such borrowers. The bank's lending to moderate-income borrowers slightly lags the aggregate lending level but exceeds the percentage of moderate-income families within the assessment area (18.8%). In 2009, the bank's overall performance is considered reasonable.

In contrast, the bank’s performance during 2008 was not as strong as its performance during 2009. During 2008, the bank reported 97 HMDA loans for which borrower incomes were known totaling \$17.6 million. Of these, five (5.2%) loans were to low-income borrowers totaling \$702,000 and eight (8.2%) loans totaling \$915,000 were to moderate-income borrowers. While the bank’s lending to low-income borrowers is consistent with the 2008 aggregate lending (5.7%) to such borrowers, the bank’s lending to moderate-income borrowers substantially lags aggregate lending (23.4%) to such borrowers as well as the proportion of moderate-income families and is considered poor. In light of the much higher demand for loans among moderate-income borrowers, as suggested by the aggregate loan volume, the bank’s performance is considered poor for 2008.

Nonetheless, the bank’s overall performance is considered reasonable. In reaching this conclusion, slightly greater weight is placed on the bank’s performance during 2009 because of the larger dollar volume of loans analyzed from that year.

Distribution of Lending by Loan Amount and Size of Business

Virginia Beach-Norfolk-Neport News, VA-NC MSA (2009)								
by Revenue	Bank				Aggregate*			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$1 Million or Less	14	37.8	3,154	48.4	3,343	18.6	224,237	31.9
Over \$1 Million	13	35.1	1,876	28.8	NA	NA	NA	NA
Unknown	10	27.0	1,493	22.9	NA	NA	NA	NA
by Loan Size								
\$100,000 or less	17	45.9	681	10.4	16,696	92.7	188,422	26.8
\$100,001-\$250,000	11	29.7	2,008	30.8	582	3.2	105,080	15.0
\$250,001-\$1 Million	9	24.3	3,834	58.8	727	4.0	408,468	58.2
Total	37	100.0	6,523	100.0	18,005	100.0	701,970	100.0

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

D&B data indicates that 89.2% of all local businesses have annual revenues that do not exceed \$1 million. According to 2009 aggregate small business data, 18.6% of reported loans were to businesses with revenues of \$1 million or less. The remaining portion of businesses either had revenues exceeding \$1 million or revenues were unknown. As part of performance context, the aggregate data was also considered after excluding certain specialty lenders, with 50.4% of the small business loans originated by the remaining traditional bank lenders made to businesses having annual revenues of \$1 million or less. When considering aggregate and demographic data as proxies for demand, as well as other performance context factors, the bank’s level of lending to businesses with annual revenues of \$1 million or less is considered reasonable.

The bank’s performance during 2008 was stronger than its performance during 2009. Specifically, the bank reported originating 168 small business loans totaling \$34.8 million. Of these loans, 102 (60.7%) totaling \$21.5 million (61.8%) were to businesses having revenues of \$1 million or less. The bank’s level of lending is considered excellent when considering that 31% of all aggregate loans were to businesses having revenues of \$1 million or less. For context, excluding specialty lenders, 49.2% of aggregate loans were to such businesses.

The bank’s small business performance is considered excellent overall. Because the bank originated a substantially larger volume of small business loans during 2008 (\$34.8 million) than during 2009 (\$6.5 million), more weight was placed on its performance during 2008 than its performance during 2009.

Geographic Distribution of Loans

Within this assessment area, the bank's geographic distribution performance of HMDA lending is excellent, while the distribution of small business lending is reasonable. Overall, the bank's geographic distribution of lending is considered excellent and reflects both the volume of HMDA lending and the strength of the bank's HMDA lending performance within the assessment area.

Distribution of HMDA Loans by Income Level of Census Tract

Virginia Beach-Norfolk-Neport News, VA-NC MSA (2009)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	%\$	#	%	\$(000s)	%\$
	(103)				Home Purchase (21,681)			
Low	5	4.9	570	2.1	466	2.1	89,890	1.8
Moderate	18	17.5	4,572	16.6	3,527	16.3	590,498	12.0
	(12)				Refinance (47,329)			
Low	0	0.0	0	0.0	731	1.5	129,742	1.3
Moderate	5	41.7	535	30.5	5,738	12.1	935,689	9.1
	(11)				Home Improvement (2,410)			
Low	4	36.4	421	19.6	40	1.7	3,607	1.6
Moderate	0	0.0	0	0.0	306	12.7	18,523	8.2
	(6)				Multi-Family (52)			
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	4	66.7	2,805	61.0	23	44.2	54,479	50.9
	HMDA Totals							
Low	9	6.8	991	2.7	1,237	1.7	223,239	1.4
Moderate	27	20.5	7,912	21.9	9,594	13.4	1,599,189	10.3
Middle	64	48.5	16,495	45.7	31,187	43.6	6,250,530	40.2
Upper	32	24.2	10,677	29.6	29,451	41.2	7,486,168	48.1
NA*	0	0.0	0	0.0	3	0.0	590	0.0
Total	132	100.0	36,075	100.0	71,472	100.0	15,559,716	100.0

*NA-Tracts without household or family income as applicable

() represents the total number of bank loans for the specific Loan Purpose

Loans where the geographic location is unknown are excluded from this table.

According to demographic data and within this assessment area, 2.2% and 15.7% of all owner-occupied housing units are located in low- and moderate-income census tracts, respectively. The demographic data suggest that there is more demand for HMDA loans from moderate-income census tract residents than low-income census tract residents.

Across all product types, the bank's distribution of lending compares favorably to both demographic and aggregate proxies for demand. When considering the bank's performance during 2009 for all HMDA loan types, bank lending in low- and moderate-income census tracts exceeds both the proportion of owner-occupied housing units in such areas as well as the aggregate lending levels. The bank's performance during 2009 is considered excellent and its performance during 2008 was substantially similar.

Distribution of Small Business Loans by Income Level of Census Tract

Virginia Beach-Norfolk-Neport News, VA-NC MSA (2009)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	%\$	#	%	\$(000s)	%\$
Low	0	0.0	0	0.0	481	2.7	23,140	3.3
Moderate	8	21.6	1,291	19.8	3,167	17.9	166,314	23.8
Middle	16	43.2	3,485	53.4	7,157	40.3	263,515	37.8
Upper	13	35.1	1,747	26.8	6,861	38.7	232,538	33.3
NA*	0	0.0	0	0.0	76	0.4	12,425	1.8
Total	37	100.0	6,523	100.0	17,742	100.0	697,932	100.0

*NA-Tracts without household or family income as applicable

According to D&B data, 3.2% and 19.9% of all area businesses are located in low- and moderate-income census tracts, respectively. This demographic data indicates that there is likely to be much greater demand for small business loans from businesses located in moderate-income census tracts than from low-income census tracts. According to data reported by the bank, no small business loans were originated in low-income census tracts while 21.6% of its loans were originated in moderate-income census tracts. Despite extending no loans in low-income tracts, where demand is limited, the bank’s level of lending in moderate-income census tracts exceeds both the demographic proxy and the aggregate lending level and is considered excellent. The bank’s overall performance is considered reasonable and its performance during 2008 is similar.

Community Development Loans, Investments, and Services

BOTC supports community development initiatives and organizations that benefit the assessment area by making qualified loans and providing financial expertise and other support to local organizations providing community development services. Discussions with an individual knowledgeable of the local market area, reviews of the performance evaluations of other financial institutions having a local presence, and other available performance context data indicate that local community development opportunities are reasonably available within the assessment area. In light of the bank’s current loan-to-deposit ratio, as well as local economic conditions, the bank’s capacity to engage in community development activities on a wide scale may be somewhat constrained.

During the evaluation period, the bank originated three community development loans totaling \$6.2 million within this assessment area. The loans provided funds to a local community development corporation that builds affordable housing targeted to low- and moderate-income residents, aided in job retention primarily for moderate-income residents, and revitalized a small business located in a designated empowerment zone.

The bank and its employees provide financial expertise to the following organizations that provide community development services targeted to low- and moderate-income residents and facilitate small business development:

- Salvation Army (community services)
- Community Housing Partners (affordable housing)
- Tidewater Business Financial Corporation (small business development)
- The Center for Community Development, Incorporated (affordable housing)
- Northwestern Community Development Center (affordable housing)

Additionally, the bank provided \$30,250 in qualified donations to local community development organizations within the assessment area. The bank’s overall community development performance demonstrates an adequate level of responsiveness to community development needs consistent with its current capacity.

STATE OF NORTH CAROLINA

CRA RATING FOR NORTH CAROLINA: Needs to Improve

The Lending Test is rated: Needs to Improve

The Community Development Test is rated: Needs to Improve

Major factors supporting the rating include:

- The bank's lending to borrowers of different income levels and businesses of different sizes is considered poor for both HMDA and small business lending.
- The bank's geographic distribution performance while considered reasonable is accorded little weight because the statewide assessment area contains only middle- and upper-income census tracts.
- The bank's participation in qualified community development activities reflects a poor level of responsiveness within the state given the community development needs that exist within the North Carolina assessment area and considering the bank's capacity to help meet such needs.

SCOPE OF EXAMINATION

The bank has delineated one assessment area (Dare, NC NonMSA) in North Carolina located in a nonmetropolitan area. The Statewide rating for North Carolina is based solely on the bank's performance in this assessment area. Because Currituck County, North Carolina, is part of the Virginia Beach-Norfolk-Newport News, VA-NC MSA, bank operations in Currituck County, including two branches locations, are not considered in the statewide evaluation of North Carolina.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN DARE, NC NONMSA ASSESSMENT AREA

According to 2000 census data, the area has a population of 29,967 and a median housing value of \$128,583. Because of its location on the coast, Dare County is a popular vacation destination and includes a large number of seasonal vacation homes. Accordingly, the owner-occupancy rate for the assessment area equals 35.5%, which is substantially lower than the corresponding rate in nonmetropolitan areas in North Carolina (62.7%). The assessment area's poverty rate (5.5%) is lower than the rate in nonmetropolitan areas North Carolina (11.3%). The 2010 median family income for the nonmetropolitan areas of North Carolina equals \$50,400. The following table includes pertinent data regarding the bank's assessment area.

Assessment Area Demographics

Dare, NC NonMSA								
Income Categories*	Tract Distribution		Families by Tract		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	972	11.4
Moderate	0	0.0	0	0.0	0	0.0	1,353	15.9
Middle	3	50.0	4,525	53.2	305	6.7	1,856	21.8
Upper	3	50.0	3,979	46.8	163	4.1	4,323	50.8
NA	0	0.0	0	0.0	0	0.0		
Total	6	100.0	8,504	100.0	468	5.5	8,504	100.0
	Owner Occupied Units by Tract		Households					
			HHs by Tract		HHs < Poverty by Tract		HHs by HH Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	1,747	13.8
Moderate	0	0.0	0	0.0	0	0.0	1,697	13.4
Middle	4,995	52.8	6,825	53.8	629	9.2	2,439	19.2
Upper	4,459	47.2	5,860	46.2	402	6.9	6,802	53.6
NA	0	0.0	0	0.0	0	0.0		
Total	9,454	100.0	12,685	100.0	1,031	8.1	12,685	100.0
	Total Businesses by Tract		Businesses by Tract and Revenue Size					
			Less than or = \$1 Million		Over \$1 Million		Revenue not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	1,383	42.5	1,254	42.8	66	42.3	63	37.5
Upper	1,871	57.5	1,676	57.2	90	57.7	105	62.5
NA	0	0.0	0	0.0	0	0.0	0	0.0
Total	3,254	100.0	2,930	100.0	156	100.0	168	100.0
Percentage of Total Businesses:				90.0		4.8		5.2

*NA-Tracts without household or family income as applicable

The bank operates two full-service branches within this assessment area. The bank has a limited presence in the assessment area as evidenced by recent (June 30, 2010) deposit data from the FDIC. The bank ranked 11th out of 12 institutions in local deposit market share holding only 1.5% of the assessment area's deposits (credit union deposits are not included).

The assessment area has a variety of employment opportunities in industries such as government, property management, food and retail services, health care and transportation. Major area employers include Dare County (including the school system), East Carolina Health, North Carolina Department of Transportation, Food Lion, Wal-Mart, Village Realty and Management Service, and SPM Resorts. Current and recent periodic unemployment rates are included in the following table:

Unemployment Rate Trend								
Geographic Area	2009				2010			
	March	June	Sept	Dec	March	June	Sept	Dec
Dare, NC	15.1%	7.2%	6.6%	14.6%	15.7%	7.4%	6.6%	14.4%
State of North Carolina	10.6%	11.2%	10.6%	11.1%	11.5%	10.6%	9.4%	9.7%

Unemployment rates in Dare County are cyclical and reflect the effect of seasonal employment opportunities during the summer months that are not available during winter months. Cyclical and/or high area employment rates may adversely affect a bank’s ability to extend credit as unemployed applicants often have diminished repayment capacity.

A local economic development official was contacted to assist in evaluating the bank’s CRA performance. The contact stated that the local economy is heavily reliant on seasonal tourism; however, the contact observed that both seasonal and year-round employment opportunities have decreased during the past three summers because of poor economic conditions. Above average rental vacancies have depressed the housing market and are contributing to an increase in foreclosures, which contribute to an erosion in overall property values. The contact stated that despite difficult economic conditions, local financial institutions are adequately serving the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

During 2008 and 2009, the bank originated \$14.4 million in HMDA loans and \$69,000 in small business loans within the assessment area. Accordingly, the bank’s HMDA lending performance is afforded more weight than the small business performance when considering the bank’s combined product performance.

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

Within the assessment area, the bank’s borrower distribution performance for HMDA and small business lending is considered poor. Consequently, the overall borrower distribution performance is also considered to be poor.

Distribution of HMDA Loans by Income Level of Borrower

Dare, NC NonMSA (2009)								
Income Categories	Bank				Aggregate			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
	(2) Home Purchase				(834)			
Low	0	0.0	0	0.0	2	0.2	110	0.0
Moderate	0	0.0	0	0.0	37	4.4	5,305	2.3
	(0) Refinance				(2,190)			
Low	0	0.0	0	0.0	26	1.2	4,047	0.7
Moderate	0	0.0	0	0.0	134	6.1	18,329	3.3
	(0) Home Improvement				(59)			
Low	0	0.0	0	0.0	2	3.4	22	0.2
Moderate	0	0.0	0	0.0	5	8.5	321	3.2
	(0) Multi-Family				(0)			
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
	HMDA Totals							
Low	0	0.0	0	0.0	30	1.0	4,179	0.5
Moderate	0	0.0	0	0.0	176	5.7	23,955	3.0
Middle	0	0.0	0	0.0	446	14.5	81,755	10.3
Upper	2	100.0	600	100.0	2,431	78.9	686,066	86.2
Total	2	100.0	600	100.0	3,083	100.0	795,955	100.0
<i>Unknown</i>	3		1,502		511		136,422	

() represents the total number of bank loans for the specific Loan Purpose where income is known
Percentage's (%) are calculated on all loans where incomes are known

Information about borrower income was available for only two HMDA loans for 2009 and neither was to a low- or moderate-income borrower. For 2008, the bank reported a slightly larger volume of loans (ten totaling \$12.3 million); however, as in 2009, none were to low- or moderate-income borrowers. Aggregate lending data suggest limited demand among borrowers in these income categories; nonetheless, the limited volume of bank lending is generally inconsistent with adequately serving such borrowers and this is reflected by the absence of such lending. The bank's performance is considered poor.

Distribution of Lending by Loan Amount and Size of Business

Dare, NC NonMSA (2009)								
by Revenue	Bank				Aggregate*			
	#	%	\$(000s)	% \$	#	%	\$(000s)	% \$
\$1 Million or Less	0	0.0	0	0.0	331	28.9	23,444	49.7
Over \$1 Million	0	0.0	0	0.0	NA	NA	NA	NA
<i>Unknown</i>	0	0.0	0	0.0	NA	NA	NA	NA
by Loan Size								
\$100,000 or less	0	0.0	0	0.0	1,048	91.4	12,440	26.4
\$100,001-\$250,000	0	0.0	0	0.0	52	4.5	9,396	19.9
\$250,001-\$1 Million	0	0.0	0	0.0	47	4.1	25,333	53.7
Total	0	0.0	0	0.0	1,147	100.0	47,169	100.0

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

As indicated in the table, the bank did not report originating any small business loans within this assessment area during 2009. In the preceding year, the bank reported originating two small business loans totaling \$69,000 of which one totaling \$50,000 was to a business having annual revenues of \$1 million or less. As in the case of HMDA lending, overall small business lending distribution is considered poor reflecting the challenge of meeting credit needs with such limited lending volume.

Geographic Distribution of Loans

As indicated in the demographic table, there are no low- or moderate-income census tracts within the assessment area. No HMDA loans were made in middle-income tracts in 2009. For 2008, the geographic distribution of HMDA loans (60% in middle-income tracts) is consistent with the demographic proxy for demand (percentage of owner-occupied housing units) and exceeds aggregate lending in such tracts (40%). Both small business loans from 2008 were in middle-income tracts (no such loans were extended in 2009). While on a consolidated basis, this distribution of lending is consistent with reasonable performance, because of the absence of any low- and moderate-income census tracts little weight is given to this performance category.

Community Development Loans, Investments, and Services

Discussions with individuals knowledgeable of the local market area, the review of the performance evaluations of other area financial institutions, and consideration of other available data indicate that community development opportunities are generally limited within the assessment area. In light of the bank's current loan-to-deposit ratio, as well as local economic conditions, the bank's capacity to engage in community development activities on a wide scale may be somewhat constrained.

During the evaluation period, the bank did not extend any qualified community development loans, make or hold any qualified investments, or participate in any community development service activities within the assessment area. While local opportunities may be limited, opportunities do exist at the market, statewide, and regional level. The bank's absence of participation on any level reflects poor performance.

APPENDIX A

SCOPE OF EXAMINATION

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION		
Assessment Area	Type of Examination	Branches Examined¹
Virginia Beach-Norfolk-Newport News, VA-NC MSA	Full Scope	403 Boush Street Norfolk, VA
Dare, NC NonMSA	Full Scope	None

¹ There is a statutory requirement that the written evaluation of a multistate institution's performance must list the individual branches examined in each state.

CRA APPENDIX B

SUMMARY OF STATE AND MULTISTATE MSA RATINGS

Multistate Metropolitan Statistical Area and State Names	Overall Rating
Virginia Beach-Norfolk-Newport News VA-NC Multistate MSA	Satisfactory
State of North Carolina	Needs to Improve

CRA APPENDIX C

LOAN, BRANCH, AND DEPOSIT VOLUME BY ASSESSMENT AREA

The following table includes the distribution of branch offices, along with deposit and loan volume. The deposit volume includes all bank deposits and is current as of June 30, 2010, while the loan volume includes all HMDA, small business, and small farm loans extended during 2008 and 2009.

Assessment Area	Loan Volume				Full-Service Branches		Deposit Volume	
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Virginia Beach-Norfolk-Newport News, VA-NC MSA	522	96.8%	\$119,933	89.2%	19	90.5%	\$1,018,685	98.7%
Dare, NC NonMSA	17	3.2%	\$14,448	10.8%	2	9.5%	\$13,663	1.3%
TOTAL	539	100%	\$134,381	100%	21	100%	\$1,032,348	100%

CRA APPENDIX D

GLOSSARY

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

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

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

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

Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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