

CPP ANNUAL USE OF CAPITAL SURVEY - 2012

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Severn Bancorp, Inc. and Severn Savings Bank, FSB

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|---|--------------------|--|-----------|
| Person to be contacted regarding this report: | Thomas G. Bevivino | RSSD: (For Bank Holding Companies) | 3831465 |
| UST Sequence Number: | 71 | Holding Company Docket Number: (For Thrift Holding Companies) | H1799 |
| CPP/CDCI Funds Received: | 23,393,000 | FDIC Certificate Number: (For Depository Institutions) | 32367 |
| CPP/CDCI Funds Repaid to Date: | 0 | Credit Union Charter Number: (For Credit Unions) | N/A |
| Date Funded (first funding): | N/A | City: | Annapolis |
| Date Repaid ¹ : | N/A | State: | Maryland |

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

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| <input checked="" type="checkbox"/> | Increase lending or reduce lending less than otherwise would have occurred. | Severn Savings Bank, FSB ("Severn") was able to maintain lending programs primarily to qualified residential borrowers and small businesses in part from the higher levels of capital received from the CPP in 2008. Severn originated and funded approximately \$85 million of loans during 2012. |
| <input checked="" type="checkbox"/> | To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.). | Severn's loan portfolio declined from approximately \$697 million at December 31, 2011 to \$663 million at December 31, 2012 due to the effects from the economic downturn. However, Severn did actively lend in 2012 primarily to qualified residential borrowers and small businesses. |
| <input checked="" type="checkbox"/> | Increase securities purchased (ABS, MBS, etc.). | Severn's investments declined approximately \$6 million during 2012. However, investments have increased approximately \$33 million since receiving funds from the CPP in 2008. |

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| <input type="checkbox"/> | Make other investments | |
| <input checked="" type="checkbox"/> | Increase reserves for non-performing assets | Severn increased its loan loss reserves by approximately \$1 million in 2012 as a result of the continued effects of the economic downturn. The increased capital received from the CPP in 2008 helped to offset the effect of the increase in loan loss reserves in 2012. |
| <input type="checkbox"/> | Reduce borrowings | |
| <input checked="" type="checkbox"/> | Increase charge-offs | Severn had loan charge-offs of approximately \$9 million in 2012 as a result of the continued effects of the economic downturn. The increased capital received from the CPP in 2008 helped to offset the effect of the increase in loan charge-offs in 2012. |
| <input type="checkbox"/> | Purchase another financial institution or purchase assets from another financial institution | |
| <input checked="" type="checkbox"/> | Held as non-leveraged increase to total capital | Severn's capital position improved as a result of earnings during 2012, not from CPP. However, Severn's capital position did improve when it received the CPP funding in 2008. |

What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

Severn was able to maintain its "well capitalized" capital status by participating in the CPP in 2008. By doing this, Severn's capital exceeded regulatory requirements for a "well capitalized" bank throughout 2012. This status helped Severn to avoid any need to raise additional capital.

What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

Due in part to the increased capital from participating in the CPP, Severn was able to continue the expansion of its business relationship banking department by increasing business products and services. In addition, Severn was able to increase its offerings to businesses and consumers, including additional commercial lending products, and an expanded line of consumer lending and deposit products. Where appropriate, Severn was also able to continue to work with distressed borrowers and modify existing loan terms to assist borrowers who were no longer capable of paying their loans , but who demonstrated the desire and capability to pay under modified loan terms.

Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

None noted

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.