

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Annapolis Bancorp, Inc.

Point of Contact:	Edward J. Schneider	RSSD: (For Bank Holding Companies)	1472257
UST Sequence Number:	482	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	8,152,000	FDIC Certificate Number: (For Depository Institutions)	
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	January 30, 2009	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).

Increase lending or reduce lending less than otherwise would have occurred.

Total loans remained essentially flat since year-end 2009, with new originations replacing scheduled amortization, maturities and payoffs. We continued to experience slow loan demand throughout 2010, but remain committed to extending credit in the communities we serve.

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.).

Increases in commercial real estate loans of \$12.7 million and home equity lending of \$2.4 million were offset by maturities and other reductions of \$8.5 million in commercial loans, and \$8.6 million in residential mortgage, construction and consumer lending combined.

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Increase securities purchased (ABS, MBS, etc.).

Make other investments.

Bank owned life insurance increased by \$1.2 million in 2010.

Increase reserves for non-performing assets.

The provision for credit losses in 2010 totaled \$2.1 million.

Reduce borrowings.

The Company reduced Federal Home Loan Bank borrowings by \$5 million or 12.5%

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Increase charge-offs.

The Company recognized \$3.3 million in gross charge-offs in 2010.

Purchase another financial institution or purchase assets from another financial institution.

Held as non-leveraged increase to total capital.

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

In providing a stable source of capital, by securing CPP funds the Bank did not have to curtail or place any limits on lending activity and was able to renew loans as they matured and continue new originations for portfolio.

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

Participating in the TARP Capital Repurchase Program has served its intended purpose by bolstering our already strong capital ratios so we could realistically and pro-actively address our problem assets. It also has also enabled us to continue pursuing lending opportunities in the communities we serve by building our Private Business Banking division which concentrates on business lending, continuing to originated both mortgage and home equity loans to consumers, and establishing a Commercial Real Estate Lending division to provide credit to that market. Initiatives like these are just some of the ways in which we are fulfilling the intent of our TARP funding and maintaining a forward focus.

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

Not applicable