



PUBLIC DISCLOSURE

February 23, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Bank of Malvern
Charter Number 3147

King and Warren Streets
Malvern, PA 19355

Office of the Comptroller of the Currency

1150 Northbrook Drive, Suite 303
Trevose, PA 19053

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 Lending Test is rated Satisfactory.

- The National Bank of Malvern's (NBM) net loan-to-deposit ratio is reasonable given the institution's size, financial condition, lending-related activities, and credit needs of the Assessment Area (AA).
- NBM made a majority of loans within the bank's AA, and meets the standards for satisfactory performance.
- The distribution of home loans to borrowers reflects reasonable penetration among individuals of different income levels within the Chester County AA, and meets the standards for satisfactory performance.
- The distribution of home loans to borrowers reflects reasonable dispersion among low- and moderate-income geographies within the Chester County AA, and meets the standards for satisfactory performance.
- During the evaluation period there were no complaints related to the bank's performance in meeting the credit needs of the AA.

SCOPE OF EXAMINATION

The Office of the Comptroller of the Currency (OCC) evaluated NBM under the Small Bank Community Reinvestment Act (CRA) examination procedures. Under these procedures, the bank is subject to a streamlined CRA examination that focuses primarily on five performance criteria:

- Loan-to-deposit ratio
- Lending in assessment area
- Lending to borrowers of different incomes
- Geographic distribution of loans
- Responsiveness to complaints

Changes affecting the data used to evaluate CRA performance have been phased in over several years as federal banking agencies analyzed and adapted to the most recent census data. With the 2010 Census, the U.S. Census Bureau revised its approach to collecting most of the population and demographic data used in the CRA performance evaluation process. The Office of Management and Budget (OMB) revised Metropolitan Area (MA) and census tract (CT) geographic definitions and boundaries in February 2013. CRA performance evaluations are affected by the 2010 census data changes beginning January 1, 2012, and the MA changes beginning January 1, 2014. Thus, NBM's CRA performance evaluation would require three separate analyses for the periods: January 1, 2010 through December 31, 2011; January 1, 2012 through December 31, 2013; and finally, January 1, 2014 through September 30, 2014.

We completed this PE by using a Limited Data Analysis. The evaluation period for the Lending Test is from January 1, 2012 through December 31, 2013. Conclusions regarding the bank's lending performance are based on residential mortgage loans. The OCC considers this approach reasonable for NBM based on its activity and primary lending focus. Bank management concurred with the exclusion of additional data.

The bank's primary lending focus is residential mortgage loans. We did not include small-business loans in the review. We based the residential mortgage loan analysis upon the bank's Home Mortgage Disclosure Act- Loan Application Registers (HMDA-LAR). We tested the HMDA-LARs prior to this review and found them to be reliable for the purposes of our analysis. We selected a random sample of 65 loan files for testing from the bank's 2012 and 2013 HMDA-LARs. Results of this testing demonstrated the data is reasonably accurate and can be relied upon for this CRA evaluation. Therefore, we used the HMDA data from January 1, 2012 through December 31, 2013 to evaluate the bank's home mortgage loan performance.

DESCRIPTION OF INSTITUTION

NBM is a federally chartered, family-owned, independent community bank headquartered in Malvern, Pennsylvania (PA). The bank is located approximately 25 miles northwest of Philadelphia, PA. NBM is a wholly owned subsidiary of Malvern Bank Corporation, a one-bank holding company located at the same address as NBM. The holding company has no other operating subsidiaries. The bank received its charter in 1883, and moved to its current location at King Street and Warren Avenue in 1887. The bank retains its original name, and has not had a merger or acquisition in its 132-year history. The bank operates one branch in the neighboring town of Frazer, PA, and both the main office and the branch are located in middle-income CTs. The bank has not opened or closed any branches since its last CRA evaluation in 2009.

As of December 31, 2014, NBM reported total assets of \$144 million, deposits of \$117 million, total loans of \$96 million, and Tier 1 capital of \$23 million. NBM offers an arrangement of traditional deposit accounts, loan products, and other banking services. Loans secured by 1-4 family residences are NBM's primary lending product, as loans secured by mortgages on 1-4 family residences comprise 54 percent of all NBM loans. Other lending products include mortgages secured by commercial real estate, farmland, and multifamily properties as well as loans to municipal, commercial and industrial, and consumer entities. The bank's lending strategy is to offer customized products that fit their borrower's credit needs. The bank offers personal and home equity loans with small minimum loan amounts, which provide low- and moderate-income borrowers, and especially senior citizens, a loan product to borrow smaller amounts with a reasonable repayment.

NBM deposit products and services address low- and moderate-income community needs. Products include free checking with a minimum daily balance of \$100 and low opening-threshold savings, certificate of deposit, and individual retirement accounts. The bank also offers free 24-hour online and mobile banking services that provide live-time balances, transfers, and bill payments. NBM offers bank lobby hours of 9:00AM to 4:00PM, with extended Friday and Saturday morning bank hours. Both bank locations have ATMs and drive-through services that open one hour earlier than the lobby Monday through Friday. The bank's website, www.natbankmal.com, includes a complete list of products and services.

The bank's December 31, 2014 Call Report disclosed net loans of \$95 million and total assets of \$144 million, resulting in a net loan-to-total asset ratio of 66 percent. Based on the Federal Financial Institutions Examination Council (FFIEC) December 31, 2014 State Average Report, the average net loan-to-total asset ratio for all commercial banks within the Commonwealth of PA is 67 percent. Based upon the FFIEC December 31, 2014 Custom Peer Group Data Report, the average net loan-to-total asset ratio for all banks with assets ranging from \$141 million to \$445 million in Chester County is 66 percent.

Table 1 provides more detail on the loan portfolio as of December 31, 2014 for NBM.

Table 1 - Loan Portfolio Summary by Loan Product The National Bank of Malvern December 31, 2014			
Loan Category	Amount (\$000's)	Percent of Total Loans	Percent of Total Assets
Loans Secured by 1-4 Family Residences	\$52,113	54.11%	36.23%
Commercial Real Estate	\$22,249	23.10%	15.47%
Loans Secured by Farmland	\$15,924	16.54%	11.07%
Loans Secured by Multifamily Properties	\$3,510	3.64%	2.44%
Municipal Loans	\$1,588	1.65%	1.10%
Commercial and Industrial Loans	\$768	0.80%	0.53%
Consumer Loans	\$120	0.12%	0.08%
Other Loans	\$30	0.03%	0.02%
Total	\$96,302	100.00%	66.95%

Source: December 31, 2014 Call Report

At the 2009 CRA evaluation, NBM's total assets were \$125 million as reported on March 31, 2009. Total assets reported as of December 31, 2014 are \$144 million, an increase of \$18 million, or 15 percent. Total loans were \$89 million as reported in March 31, 2009. Total loans reported as of December 31, 2014 were \$96 million, an increase of \$7 million or 8 percent.

The institution has no financial or legal impediments to meeting the credit needs of its assessment area. The OCC rated the institution "**Satisfactory**" at the last CRA evaluation dated July 20, 2009.

DESCRIPTION OF ASSESSMENT AREA(S)

NBM's single AA is the entirety of Chester County, PA, which consists of 116 contiguous whole CTs. The AA does not arbitrarily exclude any low- or moderate-income areas. Berks and Montgomery Counties bound the AA on the north, Delaware County bounds the AA on the east, Lancaster County bounds the AA on the west, and the states of Delaware and Maryland bound the AA on the south. Chester County comprises the Philadelphia Metropolitan Statistical Area.

Of the 116 CTs, three or 2.6 percent are low-income, six or 5.2 percent are moderate-income, 36 or 31 percent are middle-income, 70 or 60.3 percent are upper-income, and one or one percent is non-rated. NBM's defined AA is geographically logical and shows no evidence of exclusion of low- or moderate-income CTs. NBM's main office and the branches are located in Chester County and within the AA. The AA meets the requirements of the regulation.

The 2010 U.S. Census reported the total population of the AA at 498,886. Within the AA, there are 128,975 families and 181,136 households. There are 189,259 housing units, of which 139,743 are owner-occupied, 41,393 are rental-occupied, and 8,123 are vacant housing units. Approximately 1 percent of owner-occupied housing is located in low-income geographies, 2.5 percent is located in moderate-income geographies, 27.6 percent is located in middle-income geographies, and 69 percent is located in upper-income geographies. Of the total number of housing units, 84 percent are single family and 13.4 percent are multifamily. The median housing value is \$354,547.

Based upon 2010 U.S. Census Data, the median family income was \$74,808. The 2013 U.S. Department of Housing and Urban Development (HUD) updated median family income was \$79,200 for Chester County. Approximately 12.3 percent of the families in the AA are categorized as low-income, 12 percent are moderate-income, 18.2 percent are middle-income, and 57.5 percent are upper-income. Approximately 6 percent of households are below the poverty level, and 3.9 percent of households that are families are below the poverty level.

Tables 2 and 3 summarize the AA's demographic characteristics.

Table 2 - Demographic Information for The National Bank of Malvern AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	116	2.59%	5.17%	31.03%	60.34%	0.86%
Population by Geography	498,886	2.28%	3.95%	28.67%	64.42%	0.68%
Owner-Occupied Housing by Geography	139,743	0.93%	2.49%	27.57%	69.00%	0.00%
Business by Geography	59,369	1.51%	3.58%	22.40%	72.50%	0.01%
Farms by Geography	1,876	0.53%	5.33%	31.72%	62.42%	0.00%
Family Distribution by Income Level	128,975	12.27%	12.00%	18.21%	57.51%	0.00%
Distribution of Low and Moderate Income Families throughout AA Geographies	31,306	5.56%	8.64%	41.35%	44.45%	0.00%
Median Family Income		74,808	Median Housing Value		354,547	
HUD Adjusted Median Family Income for 2013**		79,200	Unemployment Rate (Chester)***		3.5%	
Households Below Poverty Level		6%				

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

Sources: 2010 U.S. Census;

** 2013 HUD Updated Median Family Income;

*** U.S. Department of Labor, Bureau of Labor Statistics

Table 3 - Assessment Area Demographic Information								
Geographic Income Category	% Family Distribution	Census Tract Data Distributions						
		# Tracts	% Housing Units	% Owner Occupied Units	% Rental Occupied Units	% Single Family Units	Median Housing Value	Median Housing Age
Low	1.74%	3	2.39%	0.93%	6.75%	2.09%	\$161,646	65
Moderate	3.77%	6	3.86%	2.49%	8.17%	3.48%	\$233,699	41
Middle	28.15%	36	30.23%	27.57%	38.23%	28.51%	\$249,918	37
Upper	66.34%	70	63.53%	69.00%	46.86%	65.92%	\$401,135	29
NA	0.00%	1	0.00%	0.00%	0.00%	0.00%	\$0	0
Total #	128,975	116	189,259	139,743	41,393	158,674	\$354,547	33

Source: 2010 U.S. Census Data

The current local economy for the AA is characterized as stable. Based on information obtained from the U.S. Department of Labor, the unemployment rate in Chester County is 3.5 percent as of November 2014. This is lower than the overall Pennsylvania unemployment rate of 5.1 percent and the United States unemployment rate of 5.8 percent for the same period, seasonally adjusted. The current unemployment rates compare favorably to the rate at the previous evaluation. In June 2009, the unemployment rate for Chester County was 6.6 percent, the national unemployment rate was 9.7 percent, and the state unemployment rate was 8.4 percent.

Competition within NBM's AA is formidable. Large and regional banks dominate the deposits and loans market share. This is primarily due to more branch locations and copious marketing budgets. The most recent Federal Deposit Insurance Corporation (FDIC) *Summary of Deposits Report* dated June 30, 2014, reports 34 financial institutions with 185 branch offices competing for \$11.4 billion of deposits in Chester County. The three largest banks in Chester County retain approximately 34 percent market share of all deposits. They are Wells Fargo Bank, NA with 16 branches and 14.7 percent market share; PNC Bank, NA with 11 branches and 9.9 percent market share; and TD Bank, NA with 10 branches and 9.2 percent market share. NBM is ranked 21st in Chester County with a market share of 1 percent.

The 2012 Peer Mortgage Data Report (NE) generated from the 2010 U.S. Census Data shows there were 497 lending institutions within NBM's AA competing for 42,214 mortgage loans. The three largest competitors are Wells Fargo Bank, NA with 21.9 percent market share; JP Morgan Chase Bank, NA with 6.4 percent market share; and Citadel Federal Credit Union with 3.5 percent market share. NBM is ranked 151st with 0.1 percent market share.

We contacted a local community development organization whose primary purpose is to provide support to businesses and citizens of Malvern and neighboring Frazer, PA. The contact is located in Malvern, PA. The contact indicated the demographic composition of Chester County, specifically Malvern and the surrounding area, is diverse. The contact stated the local Borough of Malvern is small and a tight knit community, and the surrounding area is diverse with small businesses, farms, 1-4 family homes, and some corporate development. The contact indicated the NBM has developed a good reputation in the community and is well established with a long history in the region. The contact stated that in their opinion, banking needs in the community are being met by local financial institutions and established customers should not have any problems accessing credit. The contact indicated there are opportunities for banks to be involved in local community development projects.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

NBM's performance under the lending test is Satisfactory. The bank's net loan-to-deposit ratio averaged 78.7 percent over the last 23 quarters since the bank's previous CRA evaluation. NBM made a majority of loans within their AA. The distribution of home loans to borrowers reflects reasonable penetration among individuals of different income levels within Chester County AA. The distribution of home loans to borrowers reflects reasonable dispersion among low- and moderate-income geographies within the Chester County AA. NBM did not receive any CRA complaints during this evaluation period.

Loan-to-Deposit Ratio

NBM's net loan-to-deposit ratio is reasonable given the institution's size, financial condition, lending-related activities, and credit needs of the AA. The institution's net loan-to-deposit ratio averaged 78.7 percent over the last 23 quarters since the bank's previous CRA evaluation. This ratio ranged from a quarterly low of 75.3 percent to a quarterly high of 85.1 percent during the time-period. At the prior examination, as of March 31, 2009, NBM's loan-to-deposit ratio averaged 89.2 percent for the preceding 21 quarters.

This ratio is reasonable when compared to the average of eleven similarly sized and situated financial institutions. The eleven similarly sized and situated financial institutions included banks and thrifts with total assets between \$100 million and \$400 million, and operating in the same MSA as NBM. The quarterly average net loan-to-deposit ratio for this custom peer group was 80.2 percent over the same 23 quarters. The ratios ranged from a quarterly low of 75 percent to a quarterly high of 88.4 percent during that period.

Lending in Assessment Area

NBM made a majority of home mortgage loans within the bank's AA, and meets the standards for satisfactory performance. During the evaluation period, the bank's HMDA reportable loans accounted for 75.6 percent of the total number and 68.2 percent of the total dollar amount of home mortgage loans inside the bank's AA. Home mortgage loans consisted of home purchase, home improvement, and refinancing loan types. Of the 37 home purchase loans, 67.6 percent of the number and 54.8 percent of the total dollar amount were within the bank's AA. Of the 12 home improvement loans, 83.3 percent of the number and 76.4 percent of the total dollar amount were within the bank's AA. Of the 29 refinance loans, 82.8 percent of the number and 85.4 percent of the dollar amount were within the bank's AA.

Table 4 illustrates the bank's lending during the evaluation period within the AA and the dollar amount of loans.

Table 4 – Lending in Chester County Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Purchase	25	67.57%	12	32.43%	37	\$8,646	54.79%	\$7,135	45.21%	\$15,781
Improvement	10	83.33%	2	16.67%	12	\$2,668	76.36%	\$826	23.64%	\$3,494
Refinance	24	82.76%	5	17.24%	29	\$9,058	85.36%	\$1,553	14.64%	\$10,611
Total Mortgage	59	75.64%	19	24.36%	78	\$20,372	68.17%	\$9,514	31.83%	\$29,886

Source: HMDA Loan Data 2012 - 2013

Lending to Borrowers of Different Incomes

The distribution of home loans to borrowers reflects reasonable penetration among individuals of different income levels within Chester County AA, and meets the standards for satisfactory performance. The percentage of HMDA loans made to low-income borrowers is 5.4 percent, which is lower than the percentage of low-income families at 12.3 percent, but exceeds peer levels at 3.4 percent. The bank approved 42.9 percent of applications received from low-income borrowers in the AA or three out of seven applications, resulting in two originations. The percentage of HMDA loans made to moderate-income borrowers is 8.1 percent, which is lower than the percentage of moderate-income families at 12 percent and peer originations at 11.8 percent. The bank approved 66.7 percent of applications received from moderate-income borrowers within the AA or four out of six applications, resulting in three originations.

Table 5 shows the distribution of HMDA loans among borrowers of different income levels for the period of January 1, 2012 through December 31, 2013, as compared to the percent of families in each income category.

Table 5 – Borrower Distribution of Residential Real Estate Loans Chester County Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	12.27%	16.67%	12.00%	16.67%	18.21%	16.67%	57.51%	50.00%
Home Improvement	12.27%	0.00%	12.00%	0.00%	18.21%	50.00%	57.51%	50.00%
Home Refinance	12.27%	0.00%	12.00%	6.25%	18.21%	18.75%	57.51%	75.00%
Total Mortgage	12.27%	5.41%	12.00%	8.11%	18.21%	16.22%	57.51%	51.35%

Source: HMDA Lending Summary 2012 - 2013; 2010 U.S. Census Data

In our analysis, we considered the lack of affordability for a low- or moderate-income family to purchase a home. Based on the 2010 U.S. Census data, the median housing cost in the bank's AA is \$354,547. The 2013 HUD updated median family income is \$79,200. This means that a low-income person earns less than \$39,600 and a moderate-income person earns more than \$39,600 but less than \$63,360. Additionally, 10,710 or 6 percent of households are below the poverty line and are considered very low-income. This lack of affordability limits the

opportunities for home purchase, home improvement, and home refinance lending to low- and moderate-income families.

Table 6 illustrates the maximum income amount for each income range in the bank's AA.

Table 6 - Definition of Income Ranges Used in the Evaluation					
Income Category	Income Ranges				2013 Median Family Income (MFI)
	Low	Moderate	Middle	Upper	
% Range of MFI	<50%	50%-<80%	80%-<120%	≥120%	
Chester County AA	<\$39,600	<\$63,360	<\$95,040	>\$95,040	\$79,200

Source: 2010 U.S. Census; 2013 HUD updated MFI

Geographic Distribution of Loans

The distribution of home loans to borrowers reflects reasonable dispersion among low- and moderate-income geographies within the Chester County AA, and meets the standards for satisfactory performance. The geographic distribution of loans is given the least weight in the lending test, due to the small amount of loan applications made in these geographies during the evaluation period. There were 497 financial institutions offering home mortgage loans in the AA, and there were only 356 loan applications submitted to all of the lending institutions within the low-income geographies. This consists of only 0.8 percent of all residential real estate loan applications made within the AA. Opportunities for lending in these areas are very limited as only three of the bank's 116 CTs (2.6 percent) are designated as low-income. For these reasons, no weight was given to the measure of the percentage of bank loans made within low-income geographies.

The percentage of residential real estate loans NBM made in moderate-income geographies, 2.7 percent, is slightly higher than the percentage of owner-occupied housing in the moderate-income geographies in the AA of 2.5 percent. The bank's results are slightly above the aggregate applications received by all financial institutions in moderate-income tracts versus all income tracts of 2.1 percent. NBM approved 100 percent of applications received in moderate-income geographies and originated 50 percent. Peer banks approved 54.2 percent and originated 51.06 percent of applications received in moderate-income geographies. There were 895 residential real estate loan applications made within the moderate-income tracts to be competed for among 497 lending institutions. Opportunities in moderate-income geographies are also somewhat limited as only six of the bank's CTs (5.2 percent) are designated as moderate-income.

Table 7 illustrates loan originations, categorized by geography income level, reported during the review period, and compares the percentage of bank loans to the percentage of owner-occupied housing units in each income tract.

Table 7 – Geographic Distribution of Residential Real Estate Loans in AA								
	Census Tract Income Level							
	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.93%	0.00%	2.49%	7.14%	27.57%	35.71%	69.00%	57.14%
Home Improvement	0.93%	0.00%	2.49%	0.00%	27.57%	0.00%	69.00%	100.00%
Home Mortgage Refinance	0.93%	0.00%	2.49%	0.00%	27.57%	41.18%	69.00%	58.82%
Total	0.93%	0.00%	2.49%	2.70%	27.57%	35.14%	69.00%	62.16%

Source: HMDA reported data from 2012-2013; 2010 U.S. Census Data

Responses to Complaints

During the evaluation period there were no complaints related to the bank's performance in meeting the credit needs of the AA.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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