

AGREEMENT BY AND BETWEEN  
National Bank of Malvern  
Malvern, Pennsylvania  
and  
The Comptroller of the Currency

The National Bank of Malvern, Malvern, Pennsylvania (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller”) wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination (“ROE”) for the examination that commenced on October 1, 2007.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (“Board”), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

Article I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). *See* 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to:

Kathleen A. Page  
Assistant Deputy Comptroller  
Eastern Pennsylvania Field Office  
3325 Street Road, Suite 120  
Bensalem, Pennsylvania 19020

## Article II

### COMPLIANCE COMMITTEE

(1) The Board’s Compliance Committee shall consist of at least three (3) directors and of at least three (3) members of management who are not members of the Board of Directors. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within sixty (60) days of the date of this Agreement and quarterly

thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

(a) a description of the action needed to achieve full compliance with each Article of this Agreement;

(b) actions taken to comply with each Article of this Agreement;

(c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report.

### Article III

#### BOARD TO ENSURE COMPETENT MANAGEMENT AND BOARD OVERSIGHT

(1) The Board shall consider the findings contained in the ROE, and assess management's ability to correct the deficiencies in the ROE in evaluating and ensuring the competency of management.

(2) The Board shall ensure management monitors operations to ensure that they are adequately controlled and are in compliance with applicable laws, rules and regulations, and the Board shall ensure management is managing the day-to-day operations of the Bank in a safe and sound manner.

(3) The Board shall provide details of voting activities in the Board minutes as well as names and votes of any persons that vote in absentia.

(4) The Board shall on a continuing basis maintain a performance appraisal program for each senior manager and maintain a compensation program that is tied to performance pursuant to this appraisal program.

(a) at a minimum, the program shall include:

(i) an annual process for establishing goals and objectives by which the officer's effectiveness will be measured;

(ii) an education program designed to ensure that the officer has skills and abilities necessary to meet these objectives;

(iii) a process for evaluating performance according to the position's description and responsibilities; and

(iv) a process for measuring performance against the Bank's goals and objectives.

(5) Upon completion, a copy of the written program shall be submitted to the Assistant Deputy Comptroller.

#### Article IV

##### INFORMATION TECHNOLOGY

(1) The Board shall immediately take all steps necessary to improve the management of the Bank's Information Technology ("IT") activities and to correct each deficiency cited in the Report of Examination ("ROE") or any supervisory communication.

(2) The Board shall ensure continued adherence to the internal information technology audit program it developed with the assistance of Financial Outsourcing

Solutions (“FOS”) which shall include, at a minimum, fundamental elements of a sound audit program as described in the “Audit” booklet of the FFIEC Information Technology Examination Handbook.

(3) The Board shall ensure continued adherence to its comprehensive, written information security program to ensure the safety and soundness of its operations and to support the Bank’s efforts to comply with 12 C.F.R. Part 30, Appendix B, Safeguarding Customer Information. The information security program shall include administrative, technical, and physical safeguards to protect the security, confidentiality, and integrity of customer information. The information security program shall be consistent with the security process described in the “Information Security” booklet of the FFIEC Information Technology Examination Handbook. At a minimum, the information security program shall include:

- (a) a corporate-wide assessment of the risks to its customer information or customer information systems and a written report evidencing such assessment. The assessment shall include:
  - (i) the identification of reasonably foreseeable internal and external threats that could result in unauthorized disclosure, misuse, alteration, or destruction of customer information or customer information systems;
  - (ii) an assessment of the likelihood and potential damage of these threats, taking into consideration the sensitivity of customer information; and

- (iii) an assessment of the sufficiency of policies, procedures, customer information systems, and other arrangements in place to control risks.
- (b) a process to monitor and control the identified risks, commensurate with the sensitivity of the information as well as the complexity and scope of bank activities;
- (c) a test plan that provides for regular testing of key controls, systems and procedures of its information security program. The frequency and nature of such tests shall be determined by the risk assessment. Such tests shall be conducted or reviewed by independent third parties or staff independent of those who develop or maintain the information security program.
- (4) Within sixty (60) days, the Board shall develop, implement, and thereafter adhere to, a written program to oversee and manage risks associated with outsourcing technology services to third party servicers, including technology service providers and vendors. This third party management program shall be consistent with OCC Bulletin 2001-47, "Third Party Relationships," dated November 1, 2001.

## Article V

### INTERNAL AUDIT

- (1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent, internal audit program sufficient to:
  - (a) detect irregularities and weak practices in the Bank's operations;

- (b) determine the Bank's level of compliance with all applicable laws, rules and regulations;
  - (c) assess and report the effectiveness of policies, procedures, controls, and management oversight relating to accounting and financial reporting;
  - (d) evaluate the Bank's adherence to established policies and procedures and perform an appropriate level of testing to support audit conclusions;
  - (e) test the adequacy of internal controls designed to ensure compliance with the provisions of the Office of Foreign Assets Control ("OFAC") and the Bank Secrecy Act ("BSA") in all areas of the Bank;
  - (f) establish a risk-based approach to OFAC and BSA compliance that includes transactional testing and verification of data for higher-risk accounts or geographic areas of specific concern; and
  - (g) establish an annual audit plan using a risk based approach sufficient to achieve these objectives.
- (2) As part of this audit program, the Board shall evaluate the audit reports of any party providing internal audit services to the Bank, and shall assess the impact on the Bank of any deficiencies cited in such reports.
- (3) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.
- (4) The Board shall ensure that the persons conducting the audits are independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board, which shall have the sole power to

direct their activities. All reports prepared by the audit staff shall be filed directly with the Board and not through any intervening party.

(5) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors maintain a written record describing those actions.

(6) The audit staff shall have access to any records necessary for the proper conduct of its activities. National bank examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

## Article VI

### LOAN PORTFOLIO MANAGEMENT

(1) The Board shall, within sixty (60) days, develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management. The program shall include, but not be limited to:

- (h) procedures to ensure satisfactory and perfected collateral documentation;
- (i) procedures to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining, analyzing and documenting the analysis of current and satisfactory credit information;  
and
- (j) procedures to ensure documentation of ongoing communication with borrowers.

(2) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller.



## Article VII

NONACCRUAL LOANS

(1) The Bank shall immediately reverse or charge off all interest that has been accrued contrary to the requirements contained in the Instructions for Preparation of Consolidated Reports of Condition and Income (“Call Report Instructions”) governing nonaccrual loans. Further, the Bank shall immediately reverse or charge off that portion of the remaining accrued interest on such loans that, when combined with principal, is not protected by sound collateral values.

(2) Within sixty (60) days, the Board shall adopt and implement written policies and procedures governing the supervision and control of nonaccrual loans. Such policies and procedures shall:

- (a) be consistent with the accounting requirements contained in the Call Report Instructions;
- (b) address the circumstances under which accrued interest due on a loan may be added to the outstanding principal amount when the loan is renewed or restructured; and
- (c) require the monthly presentation to the Board of all loans meeting any of the nonaccrual criteria.

(3) Upon adoption, a copy of the written policies and procedures shall be forwarded to the Assistant Deputy Comptroller and the Board shall thereafter ensure Bank adherence to all policies and procedures developed pursuant to this Article.

## Article VIII

INTERNAL LOAN REVIEW

(1) Within sixty (60) days, the Board shall establish an effective, independent and on-going loan review system to review, at least quarterly, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in “Rating Credit Risk” and “Allowance for Loan and Lease Losses” booklets of the Comptroller’s Handbook. Such reports shall include, at a minimum, conclusions regarding:

- (a) the overall quality of the loan and lease portfolios;
- (b) the identification, type, rating, and amount of problem loans and leases;
- (c) the identification and amount of delinquent loans and leases;
- (d) credit and collateral documentation exceptions;
- (e) the identification and status of credit related violations of law, rule or regulation;
- (f) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) through (e) of the Article;
- (g) loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (h) loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank’s lending and leasing policies.

(2) A written description of the program called for in this Article shall be forwarded to the Assistant Deputy Comptroller upon implementation.

(3) The Board shall review on a periodic basis all independent loan and lease review report(s), and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).

(4) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

## Article IX

### INSIDER LOANS

(1) Within thirty (30) days, the Board shall determine what would have been the proper overdraft fees under the criteria set forth in 12 C.F.R. § 215.4 for foregone fees on overdrafts granted to all directors in violation of 12 C.F.R. Part 215, as more fully described in the Violations of Law section of the ROE.

(2) Within thirty (30) days, the Board shall submit its analysis for determining the overdraft fees to the Assistant Deputy Comptroller for a prior determination of no supervisory objection. After the Board determines a proper overdraft fee and receives a prior determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall ensure that the Bank is reimbursed such foregone fees.

(3) Within thirty (30) days, the Board shall adopt, implement and thereafter ensure that sufficient policies are established and followed to prevent future violations of

12 C. F. R. Part. 215. This policy must be presented to the Board and attested to by all Board members.

## Article X

### INTEREST RATE RISK POLICY

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written interest rate risk policy. In formulating this policy, the Board shall refer to the “Interest Rate Risk” booklet of the Comptroller’s Handbook. The policy shall provide for a coordinated interest rate risk strategy and, at a minimum, address:

- (a) the establishment of adequate management reports on which to base sound interest rate risk management decisions;
- (b) establishment and guidance of the Bank’s strategic direction and tolerance for interest rate risk;
- (c) implementation of effective tools to measure and monitor the Bank’s performance and overall interest rate risk profile;
- (d) prudent limits on the nature and amount of interest rate risk that can be taken; and
- (e) periodic review of the Bank's adherence to the policy.

(2) Upon adoption, a copy of the written policy shall be forwarded to the Assistant Deputy Comptroller for review.

## Article XI

CONTINGENCY FUNDING PLAN

- (1) The Board shall strengthen the Bank's Contingency Funding Plan by developing and incorporating:
  - (a) reasonable triggers that will notify management and the Board of a potential funding crisis;
  - (b) the Bank's identification of credit sensitive sources of funds and the order in which they may leave the bank;
  - (c) an updated list of contingency sources and the order in which they will be used in the event of a funding need or crisis (with consideration given for what sources would not be available if the bank's position declines or changes);
  - (d) the identification of assets that may be liquidated or pledged in a reasonably short period of time and at minimal expense to the bank;
  - (e) management's procedural authority (including "backup" authority) within the bank for executing the plan including contact information for regulators, funding entities, auditors, accountants, and the media if necessary; and,
  - (f) annual testing of any designated contingent sources such as Federal Home Loan Bank lines or the Federal Reserve Discount Window that are not currently in use.
- (2) Upon adoption, a copy of the plan shall be forwarded to the Assistant Deputy Comptroller.

## Article XII

BANK SECRECY ACT PROGRAM

(1) The Board shall ensure that the BSA Officer has sufficient training, authority, and skill to perform his/her assigned responsibilities and ensure compliance with the requirements of the BSA, USA PATRIOT Act, and rules and regulations of OFAC.

(2) Within sixty (60) days of the date of this Agreement, the Board shall determine whether any changes are needed regarding the Bank's BSA Officer's supporting staff, including the responsibilities, authority, structure, independence, competencies, or capabilities of the BSA Officer's supporting staff.

(3) Within sixty (60) days of the date of this Agreement, in response to the risks assessed as set forth in the Report of Examination dated October 1, 2007, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program of policies and procedures to provide for compliance with the Bank Secrecy Act, as amended (31 U.S.C. §§ 5311 et seq.), the regulations promulgated thereunder at 31 C.F.R. Part 103, as amended, and 12 C.F.R. Part 21, Subparts B and C, and the rules and regulations of OFAC and the BSA, and for the appropriate identification and monitoring of transactions that pose greater than normal risk for compliance with the BSA. This program shall include the following:

- (a) enhanced policies and procedures for identifying and monitoring transactions that pose greater than normal risk for compliance with the BSA;

- (b) well-defined policies and procedures for investigating and resolving the Bank's response to transactions that have been identified as posing greater than normal risk for compliance with the BSA;
  - (c) reasonable procedures for the opening of new accounts that provide for collecting customers' identifying information, verifying customers' identification, maintaining identification records, and determining whether customers appear on any list of suspected terrorists or terrorist organizations;
  - (d) procedures to maintain records on monetary instrument transactions and funds transfers, as required by the BSA; and
  - (e) a method for introducing new products and services that ensures that the policies and procedures governing new products and services are consistent with the Bank's program for compliance with the BSA.
- (4) Within sixty (60) days of the date of this Agreement, the Board shall develop, implement, and thereafter ensure Bank adherence to expanded account-opening procedures for all accounts that pose greater than normal risk for compliance with the BSA by requiring:
- (a) identification of all account owners and beneficial owners in compliance with 31 C.F.R. § 103.121;
  - (b) identification of the officers, directors, major shareholders or partners, as applicable;
  - (c) documentation of the following information for all deposit account customers:

- (i) any relevant financial information concerning the customer;
- (ii) the type of business conducted by the customer;
- (iii) the customer's source of income or wealth; and
- (iv) any other due diligence required by this Agreement, the BSA Officer or the Bank.

(5) The Bank shall have a policy for not opening an account, allowing the use of an account while verifying a customer's identity or other risks, closing an account and filing SARs if the Bank does not receive the information required by paragraph 4 and by the date the information is due or if the Bank is not able to form a reasonable belief that it knows the true identify of a customer.

(6) Within sixty (60) days of the date of this Agreement, the Board shall develop, implement, and thereafter ensure Bank maintenance of an integrated, accurate system for all Bank areas to produce periodic reports designed to identify unusual or suspicious activity, including patterns of activity, to monitor and evaluate unusual or suspicious activity, and to maintain accurate information needed to produce these reports.

- (a) The periodic reports shall include reports on any type of subpoena received by the Bank and on any law enforcement inquiry directed to the Bank and any action taken by the Bank on the affected account; and
- (b) The periodic reports shall include reports deemed necessary or appropriate by the BSA Officer or the Bank.

(7) The BSA Officer or his/her designee shall periodically review, not less than semi-annually, all account documentation for all high risk accounts and the related



accounts of those customers at the Bank to determine whether the account activity is consistent with the customer's business and the stated purpose of the account.

(8) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to establish a system of internal controls and processes to ensure compliance with the requirements to file Suspicious Activity Reports set forth in 12 C.F.R. § 21.11, as amended. At a minimum, this written program shall establish procedures for identifying and reporting known or suspected violations of Federal law, violations of the Bank Secrecy Act, or suspicious transactions related to money laundering activity, including suspicious activity relating to the opening of new accounts, the monitoring of current accounts, and the transfer of funds through the Bank.

(9) Within sixty (60) days of the date of this Agreement, the Board shall develop, implement, and thereafter ensure Bank adherence to a comprehensive training program for all appropriate operational and supervisory personnel, specifically, the Bank Secrecy Act and Compliance Officers, to ensure their awareness of their responsibility for compliance with the requirements of the OFAC and the BSA, including the reporting requirements associated with SARs pursuant to 12 C.F.R. Part 21, Subpart B, regardless of the size of the relationship or type of customer involved.

(10) This comprehensive training program shall include strategies for mandatory attendance, the frequency of training, procedures and timing for updating training programs and materials, and the method for delivering training.

(11) Upon completion, a copy of the revisions described in the preceding paragraphs of this Article shall be submitted to the Assistant Deputy Comptroller for

review. In the event the Assistant Deputy Comptroller recommends changes to the program, the Board shall immediately incorporate those changes into the program.

### Article XIII

#### VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited in the ROE and in any subsequent ROE. The quarterly progress reports required by Article I of this Agreement shall include the date and manner in which each correction has been effected during that reporting period.

(2) Within sixty (60) days of receipt of any subsequent ROE which cites violations of law, rule, or regulation, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Upon adoption, a copy of these procedures shall be promptly forwarded to the Assistant Deputy Comptroller.

Article XIV

CLOSING

(1) Although the Board has by this FA consented to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Assistant Deputy Comptroller, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this FA shall in any way inhibit, estop, bar, or otherwise prevent him from so doing.

(3) Any time requirements specified in this FA shall begin to run from the effective date of this FA. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) This FA shall be effective upon execution by the parties hereto, and its provisions shall continue in full force and effect until such time as they shall be amended by written mutual consent of the parties to this FA or excepted, waived, or terminated in writing by the Comptroller.

(5) In each instance in this FA in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this FA;

- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this FA;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) This FA expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his supervisory responsibilities. The terms of this FA, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned has hereunto set her hand.

*Signed*

*September 30, 2008*

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Kathleen A. Page  
Assistant Deputy Comptroller  
Eastern Pennsylvania Field Office

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Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

<u>/s/</u> Lydia W. Bartholomew	<u>Sept. 30, 2008</u> Date
<u>/s/</u> Andrew Bartholomew	<u>9/30/08</u> Date
<u>/s/</u> Jamie Bartholomew	<u>9/30/2008</u> Date
<u>/s/</u> Barbara W. Shipp	<u>9-30-08</u> Date
<u>/s/</u> John Willits. Shipp	<u>9/30/08</u> Date
<u>/s/</u> William L. Shipp	<u>9/30/08</u> Date
<u>Lydia H. Willits</u>	<u>Date</u>
<u> </u>	<u> </u>