



LARGE BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

Public Disclosure

April 05, 2004

Community Reinvestment Act
Performance Evaluation

**Harleysville National Bank and Trust Company
Charter Number: 9541**

**483 Main Street
Harleysville, PA 19438**

Office of the Comptroller of the Currency

**ADC-Eastern Pennsylvania
3325 Street Road Suite 120
Bensalem, PA 19020**

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, and should not 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.

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Overall CRA Rating

Institution's CRA Rating: This institution is rated **Satisfactory**.

The following table indicates the performance level of **Harleysville National Bank and Trust Company** with respect to the Lending, Investment, and Service Tests:

Performance Levels	Harleysville National Bank & Trust Company Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X	X	X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- Lending levels that reflect a good responsiveness to the credit needs of the assessment area (AA) given the bank's size, resources and level of competition.
- An adequate distribution of loans among geographies of different income levels throughout the AA, along with an adequate ratio of loans originated inside the AA.
- An excellent distribution of loans among borrowers of different income levels throughout the AA.
- Investments that reflect a good responsiveness to the credit and community development needs of the AA.
- Service delivery systems that are accessible to geographies and individuals of different income levels in the AA.
- Good performance in providing community development services.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

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 MA/assessment area.

Block Numbering Area (BNA): A statistical subdivision of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

Census Tract (CT): 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 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: 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.

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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 household and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract or a block numbering area 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 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 (e.g., approved, denied, and withdrawn).

Home Mortgage Loans: such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes loans for multifamily (five or more families) dwellings, loans for the purchase of manufactured homes and refinancing 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 Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., 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 MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any primary metropolitan area (PMA), metropolitan area (MA), or consolidated metropolitan area (CMA), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

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 multi-state 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 multi-state metropolitan area, the institution will receive a rating for the multi-state 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.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

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.

Description of Institution

Harleysville National Bank & Trust Company, (HNB&TC) is headquartered in Harleysville, Pennsylvania and is a wholly owned subsidiary of Harleysville National Corporation (HNC), a bank financial holding company. HNC also holds an insurance subsidiary and an investment subsidiary. HNC had total assets of \$2.5 billion as of December 31, 2003. Effective March 29, 2004 HNC's three subsidiary banks, HNB&TC, Security National Bank and Citizens National Bank have been consolidated into one institution. Due to the mergers occurring within such close proximity to our evaluation start date of April 5, 2004; only data for HNB&TC will be considered as part of this evaluation.

HNB&TC currently has no operating subsidiaries. HNB&TC is a full service intrastate bank with 23 branches serving three counties in the Eastern Region of Pennsylvania. HNB&TC offers a wide range of financial services, including loans to consumers, commercial and residential mortgages and commercial and industrial loans. In addition to traditional deposit and loan products, HNB&TC offers its customers insurance and investment products and trust services.

As of December 31, 2003, HNB&TC had \$1.8 billion in total assets that included \$1 billion in net loans, representing 56% of total assets. The bank's loan mix consists of 67% real estate loans, (51% residential real estate, 45% commercial real estate, 4% construction), 14% commercial and industrial loans, 11% loans to individuals, 7% leases receivable and 1% in municipal loans. Since December 31, 2002 total assets increased only 2.03% due primarily to an increase in net loans and leases of 8.25%. As of December 31, 2003, HNB&TC reported Tier 1 capital of \$138 million.

HNB&TC operates in a very competitive financial services market. The competition includes national mortgage companies, national finance companies, large regional and community banks and local savings banks and credit unions. HNB&TC is not subject to any known financial, legal or regulatory restrictions that would impede its ability to help meet the credit needs of its AA.

HNB&TC's last CRA exam was March 12, 2001, at which time the bank's performance was rated "Satisfactory."

Scope of the Evaluation

Evaluation Period/Products Evaluated

The evaluation period covered January 1, 2000, through December 31, 2002, for Home Mortgage Disclosure Act (HMDA) and small business loans. HMDA loans include home purchase, home improvement and refinance loans. The evaluation period for Community Development (CD) loans, investments, and services is March 12, 2001, through April 5, 2004. This represents the time period between the start of the bank's last and current CRA exams, however due to the consolidation activity noted earlier, the data for analysis was limited to HNB&TC. The market share and peer comparisons are based on the information contained in the aggregate HMDA and Small Business/Farm Registers for 2002. The aggregate HMDA and Small Business/Farm Reports are available for public review.

The peer comparisons in this report include only lenders who were required to file HMDA and Small Business/Farm Reports for 2002. Any lender with significant mortgage loan activity operating in HNB&TC's AA would be required to file a HMDA report for 2002. Small business reporting is required only of bank and thrift institutions with assets of \$250 million or more as of December 31st of the prior two calendar years preceding the reporting year, or an affiliate of a holding company with \$1 billion or more in assets for the same time period.

For the lending test, we evaluated HNB&TC's origination of home mortgage loans and small business loans. Small farm loans and multi-family home loans were not evaluated as the bank made no loans in these categories during the evaluation period.

Data Integrity

As part of this evaluation, publicly filed information for HMDA reportable loans and loans to small businesses was tested for accuracy. Overall, we found the bank's HMDA loan data and small business loan data to be of good quality.

Selection of Areas for Full-Scope Review

We completed a full-scope review of the bank's only assessment area, the Philadelphia MA AA, which consists of portions of Bucks, Chester and Montgomery Counties. Please refer to Appendix A later in the report for more information.

Ratings

The bank's overall rating is based entirely on the area that received a full-scope review. When determining conclusions for the Lending Test, home mortgage products were given significantly more weight than small loans to businesses, as the volume of home mortgage products loans was four times as great. Within the home mortgage product category, home improvement loans were given the most weight followed by home refinance loans. Home purchase loans were given less weight.

Other

Two community contacts were made in conjunction with this review. The contacts consisted of organizations involved in the advocacy of affordable housing and the provision of services for low and moderate-income individuals. The contacts stated that the credit needs of the area included more affordable mortgages with flexible underwriting. The contacts also saw a need for free checking accounts, increased financial literacy programs and multilingual bank staff to assist the changing demographics of the AA. The need for affordable housing related credit, investments and services were considered in our evaluation of HNB&TC's performance under the Lending, Investment and Service Tests. Refer to the Market Profile in Appendix B of this Evaluation for more information.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.

Conclusions with Respect to Performance Tests

LENDING TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the lending test is rated "High Satisfactory."

Based on the full-scope review, the bank's performance in the Philadelphia MA AA is good.

Lending Activity

Refer to Tables 1 and 2 in Appendix C for the facts and data used to evaluate the bank's lending activity.

The bank's leading product was home mortgage loans, representing 80% of the loans originated during the evaluation period. Small business loans represented the remaining 20%. Among originated home mortgage loans, 45% of loans were for home improvement, 40% of loans were for home mortgage refinance and the remaining 15% of loans were for home purchase.

HNB&TC's overall lending activity in the AA is good, given the bank's size, resources and level of competition. Based on the FDIC Summary of Deposits as of June 30, 2002, HNB&TC ranks sixth for deposits with a 4.39% market share. Based on 2002 aggregate HMDA data, HNB&TC is the number one originator/purchaser of home improvement (12.17%) loans out of 143 competitors. National and regional mortgage companies dominate the home purchase and refinance markets in the AA. The bank ranked 16th of 447 lenders in refinance loans with a 1.32% market share, however the top ten refinance lenders in AA hold 50% of the market

share and only two of these lenders are banks, the remainder are national and large regional mortgage companies. Similarly, HNB&TC ranks 22nd of 384 lenders in home purchase loans with a 1.05% market share; however the top ten purchase mortgage lenders in AA hold 45% of the market share and only three of these lenders are banks; the remainder are national and large regional mortgage companies. Based on 2002 CRA aggregate data, HNB&TC is the twenty-second originator/purchaser of small loans to businesses with a 0.47% market share.

Distribution of Loans by Income Level of the Geography

The geographic distribution of HNB&TC's home mortgage loans and small loans to businesses reflects adequate distribution throughout the AA, given the high level of competition among lenders in the AA. There are nine moderate-income geographies in the Philadelphia MA AA primarily within the Cities of Norristown and Pottstown. Based on the FDIC Summary of Deposits as of June 30, 2002, there are 27 financial institutions operating 75 branches within these cities. Additionally, HNB&TC's former affiliate, Security NB was headquartered in Pottstown and the affiliates attempt not to compete with each other. There are no low-income geographies in the Philadelphia MA AA.

Home Mortgage Loans

Refer to Tables 2, 3, and 4 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

The overall geographic distribution of home mortgage loans is adequate.

The geographic distribution of home purchase loans is adequate. The portion of home purchase loans made in moderate-income geographies is below the portion of owner-occupied housing units that are in those geographies however the market share of loans originated in moderate-income geographies is near to the bank's overall market share.

The geographic distribution of home improvement loans is poor. The portion of home improvement loans made in moderate-income geographies is well below the portion of owner-occupied housing units that are in those geographies. The market share of loans originated in moderate-income geographies is substantially less than the bank's overall market share of home improvement loans. However, Security NB is ranked fourth in these moderate-income geographies with 7.23% of the market share.

The geographic distribution of refinance loans is adequate. The portion of refinance loans made in moderate-income geographies is below the portion of owner-occupied housing units that are in those geographies. The market share of loans originated in moderate-income geographies is below the bank's overall market share.

Small Loans to Businesses

Refer to Table 6 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

The overall geographic distribution of small loans to businesses is adequate. The portion of small loans to businesses made in moderate-income geographies is below the portion of

businesses that are in those geographies. The bank's market share of small loans to businesses in moderate-income geographies approximates its overall market share of small business loans.

Lending Gap Analysis

Reports detailing HNB&TC's lending activity over the evaluation period for home mortgage loans and small loans to businesses were reviewed to identify gaps in the geographic distribution of loans. No unexplained gaps were identified.

Inside/Outside Ratio

A majority (78%) of the home mortgage and small business loans were made within the bank's AA. By product, 77% of the bank's home mortgage loans and 83% of the small loans to businesses were within the bank's AA. The home mortgage products' individual in/out ratios were comprised as follows with home purchase at 61%, home improvement at 92%, and refinances at 71%. This performance was factored into the overall analysis of the distribution of lending by income level of geography.

Distribution of Loans by Income Level of the Borrower

The borrower distribution of HNB&TC's home mortgage and small loans to businesses reflect an excellent dispersion among borrowers of different income levels throughout the AA. In the evaluation of borrower distribution, we gave consideration to the poverty level in the AA. The poverty level in the Philadelphia MA AA is 3.99%. Due to reasons of affordability, it is unlikely that those with incomes below the poverty level would be involved in home mortgage financing. Accordingly, we considered this in evaluating the bank's lending distribution to low-income borrowers.

Home Mortgage Loans

Refer to Tables 8, 9, and 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

The overall borrower distribution of home mortgage loans is excellent.

Home purchase loan borrower distribution is excellent. The portion of home purchase loans to both low and moderate-income borrowers substantially exceeds the portion of families in the AA defined as such. The market share for loans made to low-income borrowers and to moderate-income borrowers exceeds HNB&TC's overall market share in the AA for home purchase loans.

Home improvement loan borrower distribution is excellent. The portion of home improvement loans to low-income borrowers is below the portion of low-income families, but is excellent when considering the 3.99% of households living below the poverty level. The portion of home improvement loans to moderate-income borrowers exceeds the portion of families defined as such in the AA. The market share for loans made to both low and moderate-income borrowers exceeds HNB&TC's overall market share in the AA for home improvement loans.

Refinance loan borrower distribution is also excellent. The portion of refinance loans to low-income borrowers is below the portion of low-income families, but is excellent when considering the 3.99% of households living below the poverty level. The portion of refinance loans to moderate-income borrowers exceeds the portion of families defined as such. The market share for loans made to both low and moderate-income borrowers exceeds HNB&TC's overall market share in the AA for refinance loans.

Small Loans to Businesses

Refer to Table 11 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

The borrower distribution of small loans to businesses is adequate. The portion of HNB&TC loans to small businesses (businesses with revenues of \$1 million or less) is less than the portion of businesses that are defined as such in the AA. The portion of loans of \$100,000 or less exceeds the portion of small businesses in the AA. Revenue information was not reported for 48.96% of the loans to businesses, therefore they could not be classified. The market share of small loans to small businesses is equal to HNB&TC's overall market share for small loans to all businesses in the AA.

Community Development Lending

Refer to Table 1 in Appendix C for the facts and data used to evaluate the bank's level of community development lending.

CD lending had a neutral impact on the Lending Test rating. During the evaluation period, HNB&TC originated 34 CD loans totaling \$681 thousand in the AA.

HNB&TC participates in a multi-bank Community Development Corporation (CDC) and was a founding member bank of this CDC, which was formed in 1999. This CDC was featured positively in "Casade", a community development publication of the Federal Reserve Bank of Philadelphia, Spring 2003. The CDC was cited for financing ventures, which have made possible 188 affordable housing units and numerous non-profit facilities. The CDC is designed to meet the housing and related needs of low and moderate-income individuals and families of Montgomery and Bucks Counties. Loan commitments are received from member banks, which are each then required to participate in each loan funded, based upon the amount of their commitment. HNB&TC's portion of each loan has averaged around 11% during the evaluation period. HNB&TC's committed \$500,000 in loan funds for the CDC's second loan pool and has pledged an additional \$500,000 for the third pool, which has not yet been finalized. During the evaluation period, 13 loans have been originated with HNB&TC's proportionate share totaling \$579 thousand.

HNB&TC continues to be one of seven participating banks in a county micro loan fund organized in June 2000. The micro loan fund provides very small businesses, which may not have access to credit through traditional credit providers, the ability to obtain small dollar loans under reasonable terms. Additionally, many of these businesses are start-up operations or expanding and provide permanent job creation for low and moderate-income individuals. During the evaluation period, the bank originated 21 loans totaling \$102 thousand.

Product Innovation and Flexibility

HNB&TC's innovative and flexible lending activity had a neutral impact on the evaluation of its lending performance. Flexible lending programs are described below.

HNB&TC continues to offer a proprietary Community Development Plan (CDP) home purchase mortgage product with flexible underwriting guidelines targeted to low and moderate-income individuals meeting the HUD guidelines. HNB&TC also offers a similar product, the Affordable Gold Mortgage product through Freddie Mac. During the evaluation period, the bank originated 93 affordable mortgage loans under these programs totaling \$8.2 million.

HNB&TC now also offers a Community Development Plan (CDP) home purchase mortgage product with flexible underwriting guidelines and income limitations. The bank originated 6 CDP home equity mortgage loans totaling \$79 thousand during the evaluation period.

Additionally, HNB&TC recently partnered with the Montgomery County Housing Authority under a new program to assist low-income families who are eligible for HUD's Section 8 rental assistance program become homeowners. Under this program families may purchase a property in Montgomery County that meets HUD and local building code standards. HUD adopted rules allowing Section 8 vouchers to be used to subsidize the monthly mortgage costs on a 30-year fixed-rate conventional mortgage. The buyer must also agree to pre and post-ownership financial counseling. No mortgages have yet been made under this program.

INVESTMENT TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the investment test is rated "High Satisfactory."

Refer to Table 14 in Appendix C for the facts and data used to evaluate the bank's level of qualified investments.

The bank's performance under the Philadelphia MA AA is good in relation to the bank's size and resources and the level of and competition for community development opportunities in the AA. During the evaluation period, HNB&TC made 74 qualified investments, grants and donations totaling \$6.6 million in the AA.

During the evaluation period, HNB&TC invested \$6.5 million in a CRA mutual fund, which was initiated nationwide in June 1999. The fund is a concept that allows the purchase of shares in a CRA-dedicated mutual fund. The fund allows banks to specify underlying securities located in its assessment area. The bank made its initial investment in May 2002 and, as of our evaluation date; \$5.2 million has been allocated to securities and investments within the bank's AA. An additional \$1.3 million in investment monies in the fund have yet to be allocated to specific securities.

During the evaluation period, HNB&TC also made 66 qualifying grants and donations totaling \$116 thousand in the Philadelphia MA AA. The grants were spread among organizations involved in the provision of affordable housing and those that provide assistance and community services targeted to low and moderate-income individuals.

HNB&TC also has a prior period investment in a government agency sponsored mortgage backed security of \$355 thousand. The security is backed by mortgage loans to low and moderate-income individuals in a greater statewide regional area in eastern Pennsylvania that includes the bank's assessment area. Affordable housing for low and moderate-income individuals continues to be an important community need.

SERVICE TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Service Test is rated "High Satisfactory." Based on the full-scope review, the bank's performance in the Philadelphia MA AA is good.

Retail Banking Services

Refer to Table 15 in Appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings. Three of HNB&TC's 23

branches are located within retirement communities with access limited to residents and employees of those communities.

HNB&TC's delivery systems are accessible to geographies and individuals of different income levels throughout the Philadelphia MA AA based on close proximity of its branches (less than 5 miles/5-10 minutes driving time) to moderate-income geographies. There are no low-income geographies in the AA.

HNB&TC does not have any branches in moderate-income geographies, 3% (28,141) of the more than 1 million total population in the AA reside in the moderate-income geographies.

As noted earlier, the moderate-income geographies are located primarily in Pottstown and Norristown. These areas are heavily banked with 27 financial institutions operating 75 branches within these areas, minimizing the opportunity to serve the residents of those communities. HNB&TC serves these areas through its three branches that are located in close proximity to Pottstown and one office in Norristown, which is adjacent to the moderate-income geographies. Additionally, HNB&TC's former affiliate¹, Security NB is headquartered in Pottstown and its branch network provides banking services in HNB&TC's AA, including two of the moderate-income geographies.

Changes in branch locations have not adversely affected the accessibility of its service delivery systems. During the evaluation period, HNB&TC opened one new branch in a middle-income geography. One branch was also closed in a middle-income geography.

HNB&TC's hours and services do not materially vary within the AA. Extended hours, including Saturday hours are provided at all locations. Additionally, branch managers conduct on-site business development calls to businesses throughout the AA, including those located in the moderate-income geographies.

HNB&TC offers alternative delivery systems in the form of ATMs. The geographic distribution of the bank's ATMs is similar to its distribution of its branches. HNB&TC also offers alternative delivery systems in the form of bank-by-phone and Internet banking. These services allow customers to obtain deposit and loan account information, transfer funds and reconcile their account. We did not place significant weight on these alternative delivery systems because no data was available to determine the impact of these retail-banking services on low and moderate-income geographies and individuals.

Community Development Services

HNB&TC's performance in providing community development services is good.

Management and bank personnel are members of the boards of directors or finance committees of organizations that provide community development services. HNB&TC employees provide a good level of support to various community development service organizations. Members of the HNB&TC staff and Board participate in 16 various community

¹ As noted earlier the three affiliates, Harleysville National Bank and Trust Company, Security National Bank and Citizens National Bank merged into one institution immediately prior to the commencement of our evaluation.

service organizations. These organizations are very responsive to the credit and service needs of the community.

HNB&TC was one of the founding member banks of the Community Lenders Community Development Corporation (CLCDC). The bank's Corporate Compliance Officer continues to serve on the Board of Directors and Finance Committee of the CLCDC and accepted the responsibility as Treasurer during the evaluation period. A Senior Vice President of the bank serves on the loan committee. The CLCDC is dedicated to affordable housing and community revitalization and addressing the needs of low and moderate-income people throughout Bucks and Montgomery Counties.

In the Philadelphia MA AA, members of the HNB&TC staff and Board currently also participate in four organizations that promote economic development by providing affordable financing for small sized businesses and farms that employ low and moderate-income individuals and support permanent job creation, retention, and improvement in moderate-income geographies; three organizations that are committed to providing affordable housing to low and moderate-income individuals; and eight organizations that provide services targeted to low and moderate-income individuals.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD Loans): (01/01/00 to 12/31/01) Investment and Service Tests and CD Loans: (03/12/01 to 04/05/04)	
Financial Institution	Products Reviewed	
Harleysville National Bank & Trust Co. (HNB&TC) Harleysville, Pennsylvania	Home mortgage loans, small loans to businesses, CD loans and qualified investments and services	
Affiliate(s)	Affiliate Relationship	Products Reviewed
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Philadelphia MA AA	Full-Scope	

Appendix B: Market Profiles for Full-Scope Areas

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Market Profiles for Areas Receiving Full-Scope Reviews

Philadelphia MA AA B-2

Philadelphia MA AA

Demographic Information for Full-Scope Area: Philadelphia MA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	276	0.00	3.26	51.81	43.84	1.09
Population by Geography	1,008,783	0.00	2.79	51.46	45.32	0.43
Owner-Occupied Housing by Geography	269,151	0.00	1.89	49.05	49.06	0.00
Businesses by Geography	115,938	0.00	3.34	44.95	51.69	0.02
Farms by Geography	2,320	0.00	1.12	49.57	49.31	0.00
Family Distribution by Income Level	272,248	10.54	15.45	24.95	49.06	0.00
Distribution of Low and Moderate-Income Families throughout AA Geographies	70,761	0.00	5.80	63.71	30.49	0.00
Median Family Income HUD Adjusted Median Family Income for 2002 Households Below the Poverty Level	= \$41,908 = \$63,300 =3.99%	Median Housing Value Unemployment Rate				
		= \$145,558 = 1.84%				

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

Source: 1990 U.S. Census, and 2002 HUD updated MFI.

The Philadelphia MA AA consists of the majority of the Counties of Bucks and Montgomery and the northeastern most geographies of Chester County. The AA meets the requirement of the regulation and does not arbitrarily exclude low or moderate-income geographies. The composition of the AA geographies by income level is: 0% low-income, 3% moderate-income, 52% middle-income, 44% upper-income and 1% for which income has not been designated.

The level of competition among financial service providers in the AA is very high. HNB&TC competes with large national mortgage and finance companies, large interstate regional banking companies, and various community banks, and local savings banks and credit unions. According to the FDIC market share report as of June 30, 2002, HNB&TC is ranked sixth for market share of deposits in the AA at 4.39%. HNB&TC is a full service lender offering a broad menu of lending products that include business loans, equipment and auto leases, home mortgage loans, home equity loans, and consumer loans. HNB&TC offers a wide range of financial services, in addition to traditional deposit and loan products, HNB&TC offers its customers insurance and investment products and trust services.

Eighty-one percent of the housing in the AA is one to four family units, 17% is multifamily units and 2% is mobile homes. Of total housing units, 70% is owner-occupied, 25% is renter-occupied, and 5% is vacant. The median housing value was \$145,558 in the 1990 census. Housing stock consists mostly of older homes with the median year built of 1964.

According to the 2002 business demographics there are 118,258 businesses, of which 2,320 are farms in the AA. Small businesses represent 56% of the businesses. Approximately 51% of businesses reported having less than 10 employees. The primary industries in the AA are services 28% and retail trade 13%. The AA also has a large percentage (33%) of industries that remain unclassified. Major employers in the AA include Merck & Company, Inc., Prudential Insurance Company of America, Jefferson Health System, and State and County government.

Based on OCC internal resources, community contacts and public information, the AA has opportunities available for community development services. Opportunities are somewhat limited for community development lending and investments.

Appendix C: Tables of Performance Data

Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As __.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item with the appropriate caption, such as “Statewide/Regional” or “Out of Assessment Area,” in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column.
- Table 1. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table

also presents market share information based on the most recent aggregate market data available.

- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm.

Market share information is presented based on the most recent aggregate market data available.

Table 13. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL) - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MA/assessment area.

Table 14. Qualified Investments - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As __.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such investments exist, insert a line item with the appropriate caption, such as "Statewide/Regional" or "Out of Assessment Area," in the MA/Assessment Area column and record the corresponding numbers and amounts in the "Qualified Investments" column.

Table 15. Distribution of Branch Delivery System and Branch Openings/Closings - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

Table 1. Lending Volume

LENDING VOLUME		Geography: HARLEYSVILLE				Evaluation Period: JANUARY 1, 2001 TO DECEMBER 31, 2002						
MA/Assessment Area (2002):	% of Rated Area Loans (#) in MA/AA*	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
Full Review:												
Philadelphia MA AA	100.00	3,104	234,934	770	118,930	0	0	34	681	3,908	354,545	100.00

* Loan Data as of December 31, 2002. Rated area refers to either the state or multi-state MA rating area.

** The evaluation period for Community Development Loans is From March 12, 2001 to April 05, 2004.

*** Deposit Data as of December 31, 2003. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

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Table2. Geographic Distribution of Home Purchase Loans

Geographic Distribution: HOME PURCHASE			Geography: HARLEYSVILLE				Evaluation Period: JANUARY 1, 2001 TO DECEMBER 31, 2002								
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp
Full Review:															
Philadelphia MA AA	484	100.00	0.00	0.00	1.89	0.83	49.05	50.83	49.06	48.14	1.05	0.00	0.90	1.23	0.91

* Based on 2002 Peer Mortgage Data: Northeast Region 2.

** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 1990 Census information.

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Table 3. Geographic Distribution of Home Improvement Loans

Geographic Distribution: HOME IMPROVEMENT			Geography: HARLEYSVILLE				Evaluation Period: JANUARY 1, 2001 TO DECEMBER 31, 2002								
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography [*]				
	#	% of Total ^{**}	% Owner Occ Units ^{***}	% BANK Loans	% Owner Occ Units ^{***}	% BANK Loans	% Owner Occ Units ^{***}	% BANK Loans	% Owner Occ Units ^{***}	% BANK Loans	Overall	Low	Mod	Mid	Upp
Full Review:															
Philadelphia MA AA	1,389	100.00	0.00	0.00	1.89	0.22	49.05	51.26	49.06	47.52	12.17	0.00	2.41	12.39	11.91

^{*} Based on 2002 Peer Mortgage Data: Northeast Region 2.

^{**} Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

^{***} Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information.

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Table 4. Geographic Distribution of Home Mortgage Refinance Loans

Geographic Distribution: HOME MORTGAGE REFINANCE			Geography: HARLEYSVILLE				Evaluation Period: JANUARY 1, 2001 TO DECEMBER 31, 2002								
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography *				
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp
Full Review:															
Philadelphia MA AA	1,231	100.00	0.00	0.00	1.89	0.65	49.05	55.65	49.06	43.54	1.32	0.00	1.08	1.75	1.00

* Based on 2002 Peer Mortgage Data: Northeast Region 2.

** Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information.

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Table 6. Geographic Distribution of Small Loans to Businesses

Geographic Distribution: SMALL LOANS TO BUSINESSES			Geography: HARLEYSVILLE				Evaluation Period: JANUARY 1, 2001 TO DECEMBER 31, 2002								
MA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography *				
	#	% of Total**	% of Businesses ***	% BANK Loans	% of Businesses ***	% BANK Loans	% of Businesses ***	% BANK Loans	% of Businesses ***	% BANK Loans	Overall	Low	Mod	Mid	Upp
Full Review:															
Philadelphia MA AA	770	100.00	0.00	0.00	3.34	1.69	44.95	57.79	51.69	40.52	0.47	0.00	0.44	0.73	0.33

* Based on 2002 Peer Small Business Data: US and PR.

** Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

*** Source Data - Dun and Bradstreet (2003).

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Table 8. Borrower Distribution of Home Purchase Loans

Borrower Distribution: HOME PURCHASE			Geography: HARLEYSVILLE				Evaluation Period: JANUARY 1, 2001 TO DECEMBER 31, 2002								
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share [*]				
	#	% of Total ^{**}	% Families ^{***}	% BANK Loans ^{****}	% Families ^{***}	% BANK Loans ^{****}	% Families ^{***}	% BANK Loans ^{****}	% Families ^{***}	% BANK Loans ^{****}	Overall	Low	Mod	Mid	Upp
Full Review:															
Philadelphia MA AA	484	100.00	10.54	16.77	15.45	24.22	24.95	22.15	49.06	36.85	1.24	4.14	1.64	1.05	0.95

^{*} Based on 2002 Peer Mortgage Data: Northeast Region 2.

^{**} As a percentage of loans with borrower income information available. No information was available for 0.21% of loans originated and purchased by BANK.

^{***} Percentage of Families is based on the 1990 Census information.

^{****} Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

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Table 9. Borrower Distribution of Home Improvement Loans

Borrower Distribution: HOME IMPROVEMENT			Geography: HARLEYSVILLE				Evaluation Period: JANUARY 1, 2001 TO DECEMBER 31, 2002								
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share [*]				
	#	% of Total ^{**}	% Families ^{***}	% BANK Loans ^{****}	% Families ^{***}	% BANK Loans ^{****}	% Families ^{***}	% BANK Loans ^{****}	% Families ^{***}	% BANK Loans ^{****}	Overall	Low	Mod	Mid	Upp
Full Review:															
Philadelphia MA AA	1,389	100.00	10.54	9.20	15.45	18.41	24.95	26.23	49.06	46.16	12.74	19.74	14.25	13.00	11.31

^{*} Based on 2002 Peer Mortgage Data: Northeast Region 2.

^{**} As a percentage of loans with borrower income information available. No information was available for 0.65% of loans originated and purchased by BANK.

^{***} Percentage of Families is based on the 1990 Census information.

^{****} Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

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Table 10. Borrower Distribution of Home Mortgage Refinance Loans

Borrower Distribution: HOME MORTGAGE REFINANCE			Geography: HARLEYSVILLE				Evaluation Period: JANUARY 1, 2001 TO DECEMBER 31, 2002								
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share [*]				
	#	% of Total ^{**}	% Families ^{***}	% BANK Loans ^{****}	% Families ^{***}	% BANK Loans ^{****}	% Families ^{***}	% BANK Loans ^{****}	% Families ^{***}	% BANK Loans ^{****}	Overall	Low	Mod	Mid	Upp
Full Review:															
Philadelphia MA AA	1,231	100.00	10.54	7.57	15.45	19.63	24.95	26.30	49.06	46.50	1.54	3.36	2.31	1.71	1.20

^{*} Based on 2002 Peer Mortgage Data: Northeast Region 2.

^{**} As a percentage of loans with borrower income information available. No information was available for 0.24% of loans originated and purchased by BANK.

^{***} Percentage of Families is based on the 1990 Census information.

^{****} Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

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Table11. Borrower Distribution of Small Loans to Businesses

Borrower Distribution: SMALL LOANS TO BUSINESSES			Geography: HARLEYSVILLE		Evaluation Period: JANUARY 1, 2001 TO DECEMBER 31, 2002				
	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share*	
MA/Assessment Area:	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
Full Review:									
Philadelphia MA AA	770	100.00	55.57	30.39	59.35	22.60	18.05	0.47	0.47

* Based on 2002 Peer Small Business Data: US and PR.

** Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

*** Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2003).

**** Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 48.96% of small loans to businesses originated and purchased by the bank.

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Table 14. Qualified Investments

QUALIFIED INVESTMENTS		Geography: HARLEYSVILLE		Evaluation Period: MARCH 12, 2001 TO APRIL 5, 2004					
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
Full Review:									
Philadelphia MA AA	1	355	74	6,600	75	6,955	100	0	0

* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

** 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

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Table 15. Distribution of Branch Delivery System and Branch Openings/Closings

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS																		Geography: HARLEYSVILLE				Evaluation Period: MARCH 12, 2001 TO APRIL 5, 2004							
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings						Population															
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography															
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp												
Full Review:																													
Philadelphia MA AA	100.00	23	100	0.00	0.00	57	43	1	1	0	0	0	0	0.00	2.79	51.46	45.32												