

CPP ANNUAL USE OF CAPITAL SURVEY - 2013

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Royal Bancshares of Pennsylvania, Inc.

Person to be contacted regarding this report:	Mary Kay Shea, CAO	RSSD: (For Bank Holding Companies)	2324429
UST Sequence Number:	512	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	30,407,000	FDIC Certificate Number: (For Depository Institutions)	18962
CPP/CDCI Funds Repaid to Date:	0	Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	N/A	City:	Narberth
Date Repaid ¹ :	N/A	State:	Pennsylvania

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

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

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

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	TARP funds provided capital to facilitate prudent lending in our geographic market while we deleveraged the balance sheet. Loans increased from \$344.2 million at 12/31/12 to \$366.5 million at 12/31/13 as new loans more than offset payoffs, sales, charge-offs, and transfers to OREO.
<input type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	
<input type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	

<input type="checkbox"/>	Make other investments	
<input type="checkbox"/>	Increase reserves for non-performing assets	
<input checked="" type="checkbox"/>	Reduce borrowings	The increased liquidity provided by the TARP capital partially contributed to the Company's ability to initially reduce Federal Home Loan Bank borrowings by \$39 million and to pay off all brokered CDs. Liquidity remains strong at the end of 2013 and through the first quarter of 2014.
<input type="checkbox"/>	Increase charge-offs	
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

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

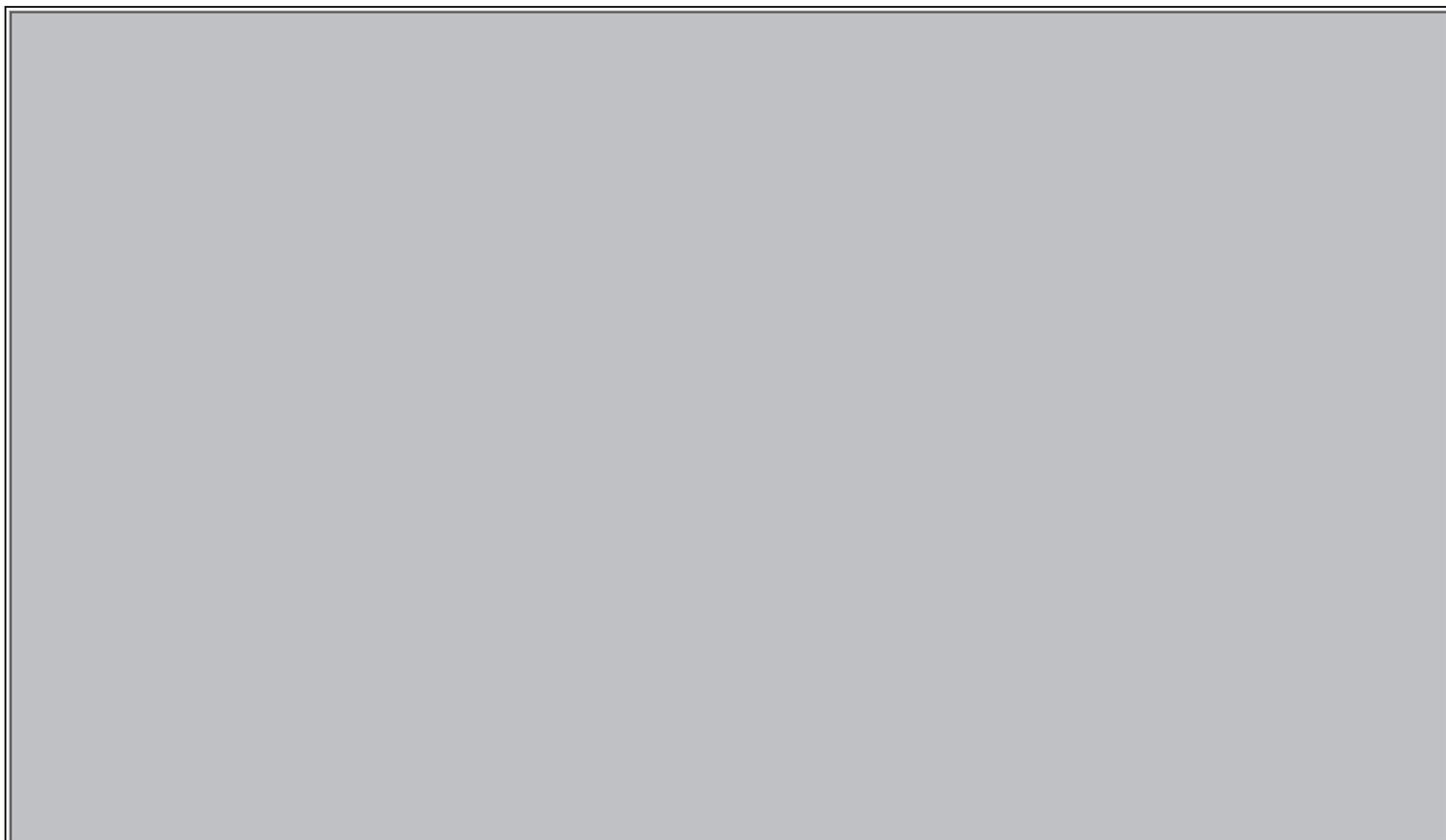
The capital received from the Treasury's TARP Capital Purchase prevented the suspension of lending and capital ratios falling below regulatory minimum requirements.

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

During 2013, the capital received from the Treasury's TARP Capital Purchase Program enabled the Company to absorb additional losses mainly related to provision for loan and lease losses and other real estate owned; maintain high liquidity ratios, generate new lending relationships, and change the mix of deposit products. Most importantly the infusion of the CPP funds has allowed the Company to continue to improve its risk profile. During 2013, non-accrual loans declined \$13.0 million to \$10.2 million at December 2013 and other real estate owned amounted to \$9.6 million at December 31, 2013. The Company is in a better position to transition to a community banking focus.

Management has raised \$14.0 million in a private placement that will be used in an upcoming auction (most likely April or May) of Royal's TARP shares by the Treasury. In addition, in the event that the Company is successful in the auction of up to 5 million shares, or \$6 million of new equity will also be available through a shareholder rights offering in April or May. In addition the Company reported earnings of \$2.1 million in 2013 for the first time in six years due to improved credit quality, new loans and a reduction in expenses. The infusion of the CPP funds provided the Company ample time to return to profitability during the past year and to be able to raise capital through a private placement. This would not have been a viable option for the Company prior to 2013 due to credit quality and a lack of earnings.

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



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