



# AMBASSADOR FINANCIAL GROUP

Notes from the Ambassador Bank Vault

April 13, 2018

## Flying Under The Radar: Small and Micro-Cap Banks in Eastern Pennsylvania



Eastern Pennsylvania is a banking market dominated by large institutions headquartered in other U.S. states and foreign countries. We define Eastern Pennsylvania as the region ranging from the heavily populated Delaware Valley in the southeast and extending northward through the Lehigh Valley to the Pocono Mountains. Please see the map on Page 8.

**This report highlights the 18 publicly-traded banks in Eastern PA with assets between \$750 million and \$10 billion.** We believe community banks in this size range are large enough to operate efficiently and small

enough to deliver personalized services. These “under the radar” stocks are not widely followed by brokerages or institutional investors for several reasons, including small market caps and little trading volume.

The highlighted banks generally performed well through 2017, as the local economy continued to improve. Credit quality remained solid, capital was not a serious issue, and core deposit bases were firm. Loan growth, however, was spotty, which was likely due to a lack of confidence among both commercial and retail customers. Passage of the Tax Cut and Jobs Act, however, removes one concern; and should spark more economic activity. Higher short-term rates could pressure net interest margins in 2018. **Investment and funding portfolios, therefore, should require more active management.** See Figure 7 on page 16 regarding loan and investment securities data. As discussed in greater detail herein, consolidation activity across Pennsylvania was light in 2017.

Figure 1

Institution	HQ	Ticker	Stock Price (\$)	Mkt Cap (\$mm)	Total Assets (\$000s)	Tang Eq/ Assets (%)	Div Yld (%)	LTM P/E (x)	Price/ TBV (%)	Insider Owner (%)	Inst. Owner (%)
Beneficial Bancorp, Inc.	Philadelphia	BNCL	15.70	1,142	5,798,828	15.3	1.5	49.1	138	4	82
Bryn Mawr Bank Corporation	Bryn Mawr	BMTC	44.25	897	4,449,720	7.6	2.0	33.5	276	3	71
Customers Bancorp, Inc.	Wyomissing	CUBI	29.10	915	9,839,555	9.2	0.0	14.8	133	8	81
DNB Financial Corporation	Downingtown	DNBF	34.20	147	1,081,915	8.1	0.8	18.5	170	19	29
Embassy Bancorp, Inc.	Bethlehem	EMYB	16.35	122	996,966	8.0	0.9	16.9	153	29	2
ESSA Bancorp, Inc.	Stroudsburg	ESSA	14.50	150	1,822,416	9.1	2.5	41.4	103	23	45
Fidelity D & D Bancorp, Inc.	Dunmore	FDDB	51.00	193	863,637	10.1	1.9	21.9	218	27	2
FNB Bancorp, Inc.	Newtown	FBIP	130.00	96	926,540	8.0	2.7	NA	NA	0	0
FNCB Bancorp, Inc.	Dunmore	FNCB	9.25	155	1,162,305	7.7	1.7	NM	174	17	0
Harleysville Financial Corp.	Harleysville	HARL	24.20	91	773,555	9.0	3.8	16.2	131	0	1
Malvern Bancorp, Inc.	Paoli	MLVF	24.80	160	1,057,158	9.8	0.0	30.6	158	13	54
Meridian Bank	Malvern	MRBK	18.00	115	856,035	11.3	0.0	36.7	120	17	43
Norwood Financial Corp.	Honesdale	NWFL	29.42	184	1,132,916	9.3	3.0	22.5	177	16	17
Peoples Financial Services	Scranton	PFIS	44.54	329	2,169,031	9.4	2.9	17.8	166	8	24
Prudential Bancorp, Inc.	Philadelphia	PBIP	18.00	162	933,750	13.7	1.1	NM	128	3	51
QNB Corp.	Quakertown	QNBC	44.20	153	1,152,337	8.6	2.9	18.3	155	15	3
Republic First Bancorp, Inc.	Philadelphia	FRBK	8.15	465	2,322,347	9.6	0.0	54.3	210	14	63
Univest Corp. of PA	Souderton	UVSP	27.85	817	4,554,862	9.7	2.9	17.0	193	4	69
<b>Median</b>				<b>161</b>	<b>1,142,627</b>	<b>9.2</b>	<b>1.8</b>	<b>21.9</b>	<b>158</b>	<b>13</b>	<b>36</b>

Source: S&P Global Market Intelligence. Pricing data as of April 11, 2018. Financial data as of or for the 3 months ending Dec. 31, 2017.

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## Random (But Not Alternative) Eastern Pennsylvania Facts

-  Villanova, the current champion, has appeared in 43 NCAA Tournaments since 1939. And since 2005, the Wildcats have earned a ticket to the dance every year with the exception of the 2012 season.
-  The world's most famous Philadelphian isn't even a real person. Rocky Balboa, made his initial appearance in 1976 in the first *Rocky* movie.
-  Edward Shippen was appointed by William Penn as Philadelphia's first mayor under the charter of 1701. Subsequent mayors were elected by the city council from among their number. No compensation was paid to the earliest office-holders, and candidates often objected strongly to their being selected, sometimes choosing even to pay a fine rather than serve.
-  Formed in 1883, the Phillies have suffered more losses (10,551) than any other major league baseball team.
-  Opening in 1745, the Moravian Book Shop in Bethlehem, is the oldest continuously operating bookstore in the world.
-  Mount Clare, located in Montgomery County, received the first telegraph, "What hath God wrought?", sent in 1844 from Washington, D.C. using Samuel B. Morse's invention.
-  Bill Haley and His Comets ("Rock Around The Clock"), hailed from Chester, Pennsylvania.
-  The Reading Railroad, featured in the board game *Monopoly*, was originally named The Reading and Philadelphia Railroad in 1883. The company filed for bankruptcy protection in 1971.
-  Located approximately three hours north of Philadelphia, Honesdale (Wayne County) boasts of a thriving artist community along with breweries, restaurants, and boutiques.
-  "Agnes" devastated many areas in Eastern Pennsylvania in 1972, and is one of five Category 1 Hurricanes to get its name retired.

## Highlights

- ✎ This *Industry Report* highlights key performance ratios and valuation metrics of 18 Eastern Pennsylvania community banks using December 2017 quarter data.
- ✎ There are 158 depository institutions, including 87 which are publicly-traded, in Pennsylvania. The top five banks have a combined deposit market share of approximately 52%. PNC Financial Services (NYSE: PNC) is the market leader with a 24% deposit share. Of the top ten Pennsylvania banks in terms of market share, only PNC and F.N.B. Corporation (NYSE: FNB) are headquartered in-state.
- ✎ Due to a greater population density, there are more community banks in Eastern Pennsylvania compared with Central and Western Pennsylvania. The trading multiples of the highlighted banks in this report vary considerably. In addition to a broad range of individual company financial performance, banks in economically vibrant markets tend to command higher trading multiples. See *Valuation Summary*.
- ✎ The highlighted banks generally have solid balance sheets that reflect strong asset quality, solid funding, and acceptable tangible capital ratios. Revenue generation, however, is likely to remain a challenge particularly if the yield curve should flatten or significant loan growth fails to materialize. Mortgage banking income seems likely to suffer due to rising interest rates. Spread income, as is the case with community banks in general, represents the overwhelming majority source of revenue.
- ✎ The median return on assets (ROA) and return on average tangible common equity (ROTCE) of the 18 Eastern Pennsylvania community banks highlighted herein were 0.70% and 8.1%, respectively, compared with 0.73% and 8.2% for all Pennsylvania community banks of similar asset size. The same ratios were 0.75% and 8.5% for the same-sized banks in the mid-Atlantic region. (These ratios use the trailing 12-month financial data for the period ending December 31, 2017.)
- ✎ The median total loan growth for the highlighted banks was 7.6% on a year-over-year basis for the period ended December 31, 2017. Please see Figure 10.
- ✎ The weighted average yields on loans and investment securities vary considerably among the highlighted institutions. Rising interest rates – particularly short-term - have dialed up the pressure on asset/liability officers to maximize profitability without sacrificing risk management standards.
- ✎ Net interest margins have generally remained fairly stable, but funding costs will be pressured by higher interest rates and the likelihood of additional Fed interest rate hikes in 2018. The median net interest margin for the highlighted banks was 3.19% for the year ended December 31, 2017, and 3.27% for the quarter ended December 31, 2017. The median net interest margins were 3.56% and 3.59% for the same-sized banks in the mid-Atlantic region for the quarter and year ending December 31, 2017, respectively.
- ✎ Arguably the single largest challenge that face community banks will be attracting and retaining core deposits should interest rates rise further. Along with pricing stress from aggressive community banks, pressure could come from credit unions as well as money center financial institutions and Internet banks.
- ✎ Banks with outsized CRE loan portfolios should expect regulators to require more detailed plans to identify, measure, and monitor CRE loans; raise underwriting standards; slow growth; and/or to raise capital.
- ✎ Approximately 8 million people reside in Eastern Pennsylvania, or about two-thirds of Pennsylvania's population. Six million of those individuals live in the Philadelphia metropolitan statistical area.

- Northeast Pennsylvania is home to part of the Marcellus Shale formation, which has provided economic benefits to the banks and communities located therein. The growth of deposits, and to a lesser extent, loans, has been influenced by natural gas drilling activities.
- Recent bank deals with Eastern Pennsylvania sellers include the acquisition of Royal Bancshares of Pennsylvania by Bryn Mawr Bank Corporation. Other fairly recent acquisitions include the purchase of East River Bank by DNB Financial (NASDAQ: DNBFI) and the acquisition of Polonia Bancorp by Prudential Bancorp Inc. (NASDAQ: PBIP). Ambassador Financial served as financial advisor to DNB Financial.

## Valuation Summary

Figure 2

Banks generally turned in good results for the quarter ending December 2017, although GAAP earnings were obscured by significant tax adjustments following the enactment of the Tax Act. Although 2018 earnings should be higher across the banking industry due to lower tax rates and the strengthening economy, our sense is that bank stocks are fully valued. We surmise that valuations also reflect hopes that the more relaxed regulatory environment (as compared with the years when the Obama Administration was in office) will help produce higher earnings.

	Median LTM P/E (x)	Median Price/TBV (%)
Highlighted Eastern PA Banks	21.9	158
All PA Banks*	19.2	156
All U.S. Banks*	20.2	171

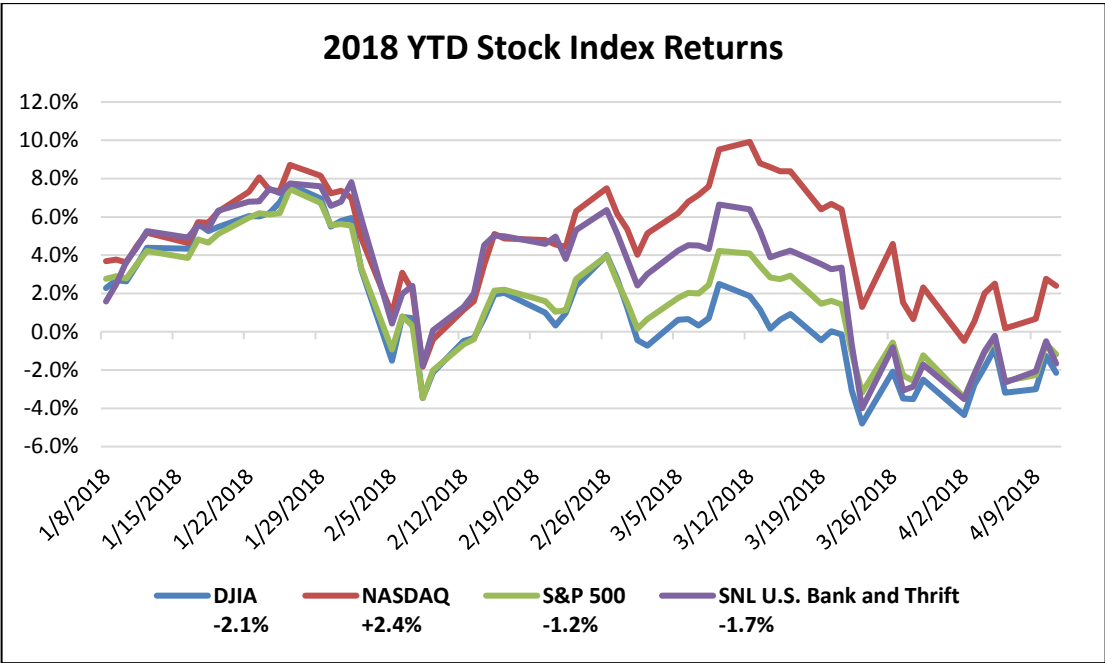
Community bank investors are likely more focused on price-to-book value measures than is usually the case given the difficulty of comparing earnings over the last 12 months and the lack of earnings estimates for the majority of banks with relatively low market capitalizations. This, however, will likely change over the next few quarters as banks report earnings with lower tax rates. Investor sentiment appears generally positive, but we question whether trading volume reflects cash inflows being deployed by passive investment funds rather than strong conviction among traditional bank investors. According to Thompson Reuters, financial stocks have a 16.8% weighting in the S&P 500 Index, a distant second to the technology sector with a 26.8% weighting.

As shown in Figure 3 below, stock performance has been lackluster since January 1, 2018, despite improving economic conditions and strong corporate earnings. The Commerce Department revised its GDP estimate to an annual rate 2.9% for the fourth quarter of 2017. Forward P/E ratios are in the 16.0x – 17.0x range as we go to press – slightly but not significantly above historical means. First quarter earnings reports will offer analysts the opportunity to fine-tune the effective tax rate component of their future estimates following the first quarterly reporting period under the new tax regime absent any deferred tax asset-related noise.

\*Banks with assets between \$750 million and \$10 billion.

Source: S&P Global Market Intelligence. Pricing data as of April 11, 2018. Financial data as of or for the three month period ending December 31, 2017. The table reflects reported, or GAAP, financial data, which include significant one-time tax adjustments.

Figure 3



Source: S&P Global Market Intelligence. Pricing data as of April 11, 2018 excluding dividends.

## Mergers and Acquisitions

Bank consolidation in Pennsylvania has produced only a handful of sizable deals since 2016. Deal flow, however, has been steady across the nation, which causes us to believe that the lack of Keystone State deals is a timing matter, rather than structural issues.

Due in large part to the passage of the Tax Cuts and Jobs Act (“Tax Act”) earnings growth should be easier to achieve for most banks in 2018. Earnings comparisons, however, will become much tougher for 2019. Although bank stock prices have generally treaded water since the start of 2018, potential buyers currently enjoy strong currencies following the sharp post-election bank stock rally in 2016, which was subsequently recharged by the Tax Act. These higher stock prices can be used by potential buyers to justify higher deal premiums. **That said, banks are sold and not bought and we suspect there is a pricing disparity between sellers’ lofty expectations and buyers’ ability to pay market premiums without incurring significant earnings dilution.**

Since the start of 2008, there have been 84 merger transactions with Pennsylvania sellers. Fifteen deals were announced since January 1, 2016 – one was announced in 2018 and ten were announced in 2017. As shown in the chart below, most of those deals were relatively small.

As we go to press, there were 54 bank and thrift deals announced nationally since January 1, 2018. (There were 60 deal announcements over the same time period in 2017.) **Nationally, the median 2018 deal price to trailing 12-months earnings was 25.7 times and the median 2018 deal price to tangible book value was 175.1%. There were 241 deal announcements in fiscal 2016 and the median deal price to trailing 12-months earnings multiple was 20.2 times and median price-to-tangible book value was 133.1%.**

**Pennsylvania merger and acquisition activity will probably occur selectively - based upon strategic needs and situational opportunities - rather than in a wave of deals caused by macro operating or regulatory concerns.** The largest deal in 2017 (based on aggregate value) was the sale of Royal Bancshares of Pennsylvania to Bryn Mawr Bank Corporation (completed December 15, 2017.) Bryn Mawr’s rationale for the acquisition was to expand its presence in Philadelphia and provide a foothold in nearby New Jersey.

Companies with stronger currencies are typically the more active acquirers. Among the larger in-state institutions, the more logical buyers of Pennsylvania’s community banks appear to be Beneficial Bancorp (NASDAQ: BNCL), FNB Corporation, First Commonwealth Financial (NYSE: FCF), Northwest Bancshares, Inc. (NASDAQ: NWBI), and S&T Bancorp (NASDAQ: STBA). Among the larger out-of-state institutions, the more logical buyers of Pennsylvania’s community banks should be Community Bank System, Inc. (NYSE: CBU), Provident Financial Services, Inc. (NASDAQ: PFS) and WSFS Financial Corporation (NASDAQ: WSFS). Pennsylvania-based Fulton Financial Corporation (NASDAQ: FULT) and New Jersey-based Investors Bancorp, Inc. (NASDAQ: ISBC) appear to be sidelined due to regulatory issues.

**Figure 4. Pennsylvania Bank Deals Since 2013**

Buyer/Target Name	Status	Completion Date**	Deal Value (\$MM)	Price/Tangible Book (%)	Price/LTM Earnings (X)	Core Deposit Premium (%)
Mid Penn Bancorp, Inc./ First Priority Financial Corp.	Pending	1/16/2018	90.5	205	30.1	11.1
Juniata Valley Financial Corp./ Liverpool Community Bank	Pending	12/29/2017	12.6	212	38.1	36.0
Advantage Bank/ First Bank of Lilly	Pending	7/14/2017	3.5	95	NM	-1.2
<b>Mid Penn Bancorp, Inc./ Scottsdale Bank &amp; Trust Company*</b>	Completion	<b>1/8/2018</b>	<b>59.1</b>	<b>130</b>	<b>NM</b>	<b>6.4</b>
Bryn Mawr Bank Corporation/ Royal Bancshares of Pennsylvania	Completion	12/15/2017	125.9	244	11.5	14.5
Penn Community Mutual Holdings Inc./ Cheltenham Hills Savings Bank	Completion	10/1/2017	NA	NA	NA	NA
<b>Riverview Financial Corporation/ CBT Financial Corporation*</b>	<b>Completion</b>	<b>10/1/2017</b>	<b>49.2</b>	<b>127</b>	<b>15.8</b>	<b>2.8</b>
Private Investor - Richard J. Green/ Semperverde Holding Company	Completion	9/27/2017	NA	NA	NA	NA
First Bank/ Bucks County Bank	Completion	9/15/2017	27.2	125	46.7	5.2
Ambler Savings Bank/ Bally Savings Bank	Completion	5/31/2017	NA	NA	NA	NA
<b>NexTier Incorporated/ Manor Bank*</b>	Completion	<b>4/30/2017</b>	<b>2.3</b>	<b>87</b>	<b>NM</b>	<b>-1</b>
Standard Financial Corp./ Allegheny Valley Bancorp, Inc.	Completion	4/7/2017	53.6	125	15.5	3.6
Dollar Bank, Federal Savings Bank/ Progressive-Home Federal SLA	Completion	3/25/2017	NA	NA	NA	NA
Prudential Bancorp, Inc./ Polonia Bancorp, Inc.	Completion	1/1/2017	38.0	101	NM	NA
<b>DNB Financial Corporation/ East River Bank*</b>	<b>Completion</b>	<b>10/1/2016</b>	<b>49.0</b>	<b>161</b>	<b>21.2</b>	<b>11.5</b>
WSFS Financial Corporation/ Penn Liberty Financial Corp.	Completion	8/12/2016	101.6	NA	31.8	10.6
Univest Corp. of Pennsylvania/ Fox Chase Bancorp, Inc.	Completion	7/1/2016	244.3	139	23.2	10.5
Emclair Financial Corp./ United-American Savings Bank	Completion	4/30/2016	14.1	178	19.7	15.3
Beneficial Bancorp, Inc./ Conestoga Bank	Completion	4/14/2016	100.1	160	24.5	9.2
BB&T Corporation/ National Penn Bancshares, Inc.	Completion	4/1/2016	1815.2	219	17.7	15.4
C&G Savings Bank/ Cresson Community Bank	Completion	2/29/2016	NA	NA	NA	NA
F.N.B. Corporation/ Metro Bancorp, Inc.	Completion	2/13/2016	473.5	178	22.7	9.4
NexTier Incorporated/ Eureka Financial Corporation	Completion	1/8/2016	35.3	151	21.4	13.1
<b>Riverview Financial Corp./ Citizens National Bank of Meyersdale*</b>	<b>Completion</b>	<b>12/31/2015</b>	<b>7.8</b>	<b>109</b>	<b>68.9</b>	<b>1.2</b>
Citizens Financial Services, Inc./ First Nat'l Bank of Fredericksburg	Completion	12/11/2015	22.9	144	NM	3.4
<b>ESSA Bancorp, Inc./ Eagle National Bancorp, Inc.*</b>	<b>Completion</b>	<b>12/4/2015</b>	<b>25.3</b>	<b>112</b>	<b>NM</b>	<b>2.1</b>
<b>Juniata Valley Financial Corp./ FNBPA Bancorp, Inc.*</b>	<b>Completion</b>	<b>11/30/2015</b>	<b>13.3</b>	<b>129</b>	<b>18.2</b>	<b>4.2</b>
WSFS Financial Corp/ Alliance Bancorp of Pennsylvania	Completion	10/9/2015	93.4	141	35.5	9.3
Andover Bancorp, Inc./ Community Nat'l Bank of Northwestern PA	Completion	10/1/2015	19.0	124	29.9	7.4
FSB Mutual Holdings, Inc./ First Federal SLA of Bucks County	Completion	8/1/2015	NA	NA	NA	NA
BB&T Corporation/ Susquehanna Bancshares, Inc.	Completion	7/31/2015	2500.9	172	16.6	8.9
<b>GNB Financial Services, Inc./ FNB Financial Corporation*</b>	<b>Completion</b>	<b>3/27/2015</b>	<b>13.4</b>	<b>117</b>	<b>NM</b>	<b>3.3</b>
S&T Bancorp, Inc./ Integrity Bancshares, Inc.	Completion	3/4/2015	159.4	266	16.8	15.3
Mid Penn Bancorp, Inc./ Phoenix Bancorp, Inc.	Completion	3/1/2015	14.5	110	26.6	1.2
WesBanco, Inc./ ESB Financial Corporation	Completion	2/10/2015	352.7	214	19.8	18.3
Univest Corporation of Pennsylvania/ Valley Green Bank	Completion	1/1/2015	77.7	234	14.7	25.3
Bryn Mawr Bank Corporation/ Continental Bank Holdings, Inc.	Completion	1/1/2015	108.8	186	42.3	13.2
CB Financial Services, Inc./ FedFirst Financial Corporation	Completion	10/31/2014	55.0	109	25.2	2.4
National Penn Bancshares, Inc./ TF Financial Corporation	Completion	10/24/2014	141.6	154	19	7.7
Provident Financial Services, Inc./ Team Capital Bank	Completion	5/30/2014	124.4	191	19.2	9.7
<b>ESSA Bancorp, Inc./ Franklin Security Bancorp, Inc.*</b>	<b>Completion</b>	<b>4/4/2014</b>	<b>15.7</b>	<b>87</b>	<b>30.5</b>	<b>-2.9</b>
GNB Financial Services, Inc./ Liberty Centre Bancorp, Inc.	Completion	3/28/2014	1.4	52	NM	-6
Peoples Financial Services Corp./ Pensco Financial Services Corp.	Completion	11/30/2013	155.9	147	15.1	7.6
<b>Riverview Financial Corporation/ Union Bancorp, Inc.*</b>	<b>Completion</b>	<b>11/1/2013</b>	<b>10.1</b>	<b>94</b>	<b>NM</b>	<b>-0.6</b>
Penns Woods Bancorp, Inc./ Luzerne National Bank Corporation	Completion	6/1/2013	46.1	165	20.3	7.5
First Priority Financial Corp./ Affinity Bancorp, Inc.	Completion	2/28/2013	12.7	105	NM	NM

\*Ambassador Deals

\*\*Announcement date is listed for pending deals

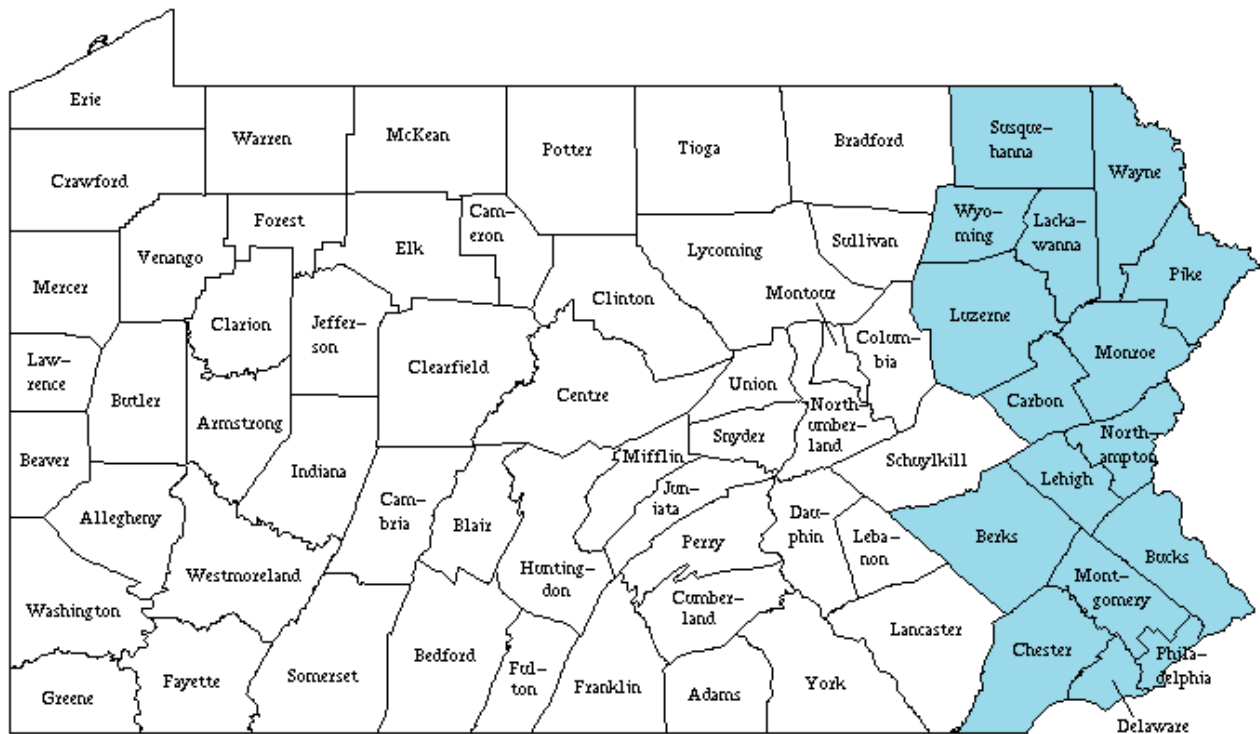
Source: S&P Global Market Intelligence



## Market Area

Figure 5

### Eastern Pennsylvania Region (as defined herein)



Philadelphia Market Area: Home to approximately 6 million people, the Philadelphia metropolitan area is the nation's fifth largest in terms of population. The median household income is \$65,800 although there is a significant variation among Philadelphia and its nearby counties. According to the Pew Charitable Trust and U.S. Census Bureau, the size of Philadelphia's middle class has stabilized after decades of decline. Philadelphia's challenge is to grow its middle class in order to achieve economic health and stability. Approximately 42% of the city's adult population is defined as middle class - belonging to a household with an income range from \$41,000 to \$123,000. Philadelphia's middle class comprised 59% of its population in 1970, when the city had 400,000 more inhabitants than it does today. The jobs situation is one of "haves" and "have-nots" – a survey revealed that approximately 20% of the city's adults were unemployed or looking for work. The positive development is the continuing expansion of education and health services that account for about one-third of all city jobs. Manufacturing, which was once a major employer in the area, has nearly disappeared. According to the City of Philadelphia's annual report on *Manufacturing and Industry*, skills attainment and job readiness is the most pressing issue among local manufacturers. **The report also cited the difficulty banks have in financing research & development under federal regulations.** As of February 2018, the unemployment rate was 6.3% in the Philadelphia metropolitan area compared with 4.8% for the state as a whole and 4.1% nationally.

Montgomery and Bucks counties are two of the wealthier counties in Pennsylvania. Significant employment industries include pharmaceuticals, health care, electronics, computer services, insurance, industrial machinery, retailing, schools and meat processing. Major companies throughout the two counties include Merck and Company, Abington Hospital-Jefferson Health, GlaxoSmithKline, Hatfield Quality Meats, Aetna/U.S. Healthcare, St. Mary Medical Center, Giant Food Stores LLC, and Doylestown Hospital. Unemployment rates at December 2017 were 3.4% in Montgomery County and 3.7% in Bucks County, lower than Pennsylvania's state unemployment rate of 4.4% and the federal unemployment rate of 4.1%, according to the Bureau of Labor Statistics.



Lehigh Valley. The Lehigh Valley consists of the Allentown-Bethlehem-Easton Metropolitan Statistical Area and is considered one of Pennsylvania's faster-growing market areas. The area is home to 10 colleges and universities and has successfully transformed to a service-oriented economy from its manufacturing roots. As of February 2018, the unemployment rate in the Lehigh Valley was 5.3%. The Lehigh Valley banking environment, moreover, was disrupted due to the acquisition of National Penn Bancshares by BB&T Corporation, which was completed April 1, 2016. The median household income was approximately \$66,000.

Scranton/Wilkes-Barre/Hazleton. Located about 125 miles northwest of Philadelphia, the Scranton/Wilkes-Barre-Hazleton market is the fourth largest metropolitan statistical area in Pennsylvania. The area is gradually being revitalized, but economic activity is still subdued compared with other parts of the state and nation as a whole. Major employers in the area include the Pennsylvania State Government, Allied Services Foundation, Community Medical Center, and the Scranton School District. As of February 2018, the unemployment rate in this metropolitan statistical area was 6.0%, and the median household income was approximately \$53,200.

The Poconos. Located in northeastern Pennsylvania, the counties in this region are typically more rural and slow-growing. The area, however, is a popular vacation destination and features numerous recreation spots. As of March 2017, the unemployment rate in the East Stroudsburg metropolitan statistical area was 6.4%, and the median household income was approximately \$62,400.

## Company Descriptions

**Beneficial Bancorp, Inc. (NASDAQ: BNCL)**. Founded in 1853, Beneficial is Philadelphia’s largest and oldest bank with deep roots that stretch across the city’s many neighborhoods and suburbs. The company completed its mutual holding company reorganization and concurrent “second step” offering in January 2015. Beneficial is community-oriented and operates 40 branches in Philadelphia and adjacent Pennsylvania counties; and 23 branches in nearby South Jersey counties. Beneficial attracts deposits from the general public and uses the funds to originate a variety of loans including commercial real estate, commercial business, equipment financial and leasing, single family, consumer, and construction. The company has grown through acquisitions over several years. The most recent was the acquisition of Conestoga Bancorp (completed April 2016), which had total assets of \$719.0 million. Per the recent Form 10-K, the company expects acquisitions to continue to be a key component of its business strategy. As of December 31, 2017, the loan-to-deposit ratio was 97% and loans were 70% of total assets. As of the same date, Beneficial had total assets of \$5.8 billion, total deposits of \$4.2 billion, and total stockholders’ equity of \$1.0 billion.

**Bryn Mawr Bank Corporation (NASDAQ: BMTC)**. The company is headquartered in Bryn Mawr, a western suburb of Philadelphia. Bryn Mawr Trust Company received its Pennsylvania banking charter in 1889, and is a wholly-owned subsidiary of the corporation. Bryn Mawr offers a full range of personal and business banking services as well as insurance and wealth management services, including investment management, trust and estate administration, retirement planning, custody services, and tax planning and preparation. Bryn Mawr has 37 full-service branches, eight limited-hour retirement community offices, two limited-service branches, six wealth offices and a full-service insurance agency. On December 17, 2017, Bryn Mawr completed its acquisition of Royal Bancshares of Pennsylvania, which added approximately \$570 million of loans and \$593 million of deposits. As of December 31, 2017, the loan-to-deposit ratio was 97% and loans were 74% of total assets. As of the same date, total assets, deposits, and shareholders’ equity were \$4.4 billion, \$3.4 billion, and \$528.1 million, respectively.

**Customers Bancorp, Inc. (NYSE: CUBI)**. Headquartered in Wyomissing (near Reading), Customers operates 13 bank branches in southeastern Pennsylvania; and selected locations in New Jersey and New York. Customers’ strategic plan is to become a leading regional bank holding company through organic growth and value-added acquisitions. Customers differentiates itself through its focus on exceptional customer service supported by state of the art technology. Customers primarily serves privately held businesses, business customers, not-for-profit organizations, and consumers. The company also focuses on certain low-cost specialty lending areas, multi-family/commercial real estate lending, and lending to commercial mortgage banking businesses. Customers conducts mortgage banking business nationwide. In the third quarter 2017, Customers decided the best strategy for shareholders to realize the value of its BankMobile business was spin-off BankMobile to Customers’ shareholders, to be followed by a merger of its BankMobile Technologies, Inc. subsidiary into Flagship Community Bank. Customers’ total assets increased from \$350 million in 2009 to \$9.8 billion as of December 31, 2017, although total assets were \$9.4 billion as of year-end 2016. As of December 31, 2017, total deposits and shareholders’ equity were \$6.8 billion and \$921.0 million, respectively.

**DNB Financial Corp. (NASDAQ: DNBFI)**. DNB Financial is the holding company of DNB First, National Association and is headquartered in Downingtown, about 35 miles west of Philadelphia. Founded in 1860, DNB First is the oldest national bank in the greater Philadelphia area. DNB Financial is community-oriented and provides a range of products and services to individuals and small to medium-sized businesses in southeastern Pennsylvania. The bank has 15 full service branches and a full-service wealth management group known as “DNB First Wealth Management.” Wealth management assets under care were \$252.8 million. The company has the sixth largest deposit market share (4.3%) in faster-growing Chester County. On October 1, 2016, DNB Financial completed its acquisition of East River Bank in a stock and cash deal valued at approximately \$49.0 million. Ambassador Financial Group, Inc. served as financial advisor to DNB Financial. As of December 31, 2017, the loan-to-deposit ratio was 98% and loans were 78% of total assets. As of the same date, the company’s total assets, deposits, and shareholders’ common equity were \$1.1 billion, \$861.2 million, and \$101.9 million, respectively.

**Embassy Bancorp, Inc. (OTCQX: EMYB)**. Organized in 2008, Embassy Bancorp is the Pennsylvania holding company of Embassy Bank For The Lehigh Valley, which opened its doors in 2001. Embassy was formed by local business persons and professionals with significant community banking experience in the Lehigh Valley. The company provides the traditional array of commercial banking products and services emphasizing one-on-one delivery to consumers and businesses located in Lehigh and Northampton counties. The loan portfolio of the company consists primarily of secured fixed-rate and variable-rate loans, with a significant concentration in commercial real estate transactions and consumer residential real estate mortgage and home equity loans. The company generally targets businesses with annual revenues of less than \$10 million, including business owners, legal, and medical professionals. As of December 31, 2017, the loan-to-deposit ratio was 95% and loans were 85% of total assets. As of the same date, Embassy had total assets, deposits, and stockholders' equity of approximately \$997.0 million, \$900.9 million, and \$79.8 million, respectively.

**ESSA Bancorp, Inc. (NASDAQ: ESSA)**. ESSA Bancorp, a Pennsylvania-chartered holding company for ESSA Bank & Trust, was formed in 2007 as part of the conversion from a mutual institution to a publicly-owned company. Headquartered in Stroudsburg (the county seat of Monroe County), ESSA operates 23 branches in eight eastern Pennsylvania counties. The company's markets include the Poconos, Lehigh Valley, Scranton/Wilkes-Barre, and suburban Philadelphia. In the first half of fiscal 2017, ESSA opened offices in faster-growing suburban Philadelphia and the Lehigh Valley. The company continues to build small business lending teams in all of its markets to transform from a retail-oriented institution to a more commercial bank-like community institution. ESSA has also expanded its market territory through three whole-bank acquisitions since converting to a public company. The most recent acquisition (completed in December 2015) was the purchase of Eagle National Bancorp, based in Philadelphia's western suburbs. Ambassador Financial Group, Inc. served as financial advisor to Eagle National. As of December 31, 2017, the loan-to-deposit ratio was 102% and loans were 78% of total assets. As of the same date, total assets, deposits, and shareholders' equity were \$1.8 billion, \$1.2 billion, and \$179.5 million, respectively.

**Fidelity D & D Bancorp, Inc. (NASDAQ: FDBC)**. Headquartered in Dunmore (near Scranton), Fidelity D & D Bancorp is a state-chartered bank holding company whose wholly-owned state chartered commercial bank is The Fidelity Deposit and Discount Bank. The bank has 12 branches and has offered a full range of traditional banking services since it commenced operations in 1903. The bank has a personal and corporate trust department and provides alternative financial and insurance products with asset management services. The service area is comprised of the Borough of Dunmore and the surrounding communities in Lackawanna and Luzerne counties in northeastern Pennsylvania. Per the recent Form 10-K, "the Company expects to overcome the relative flattening of the positively sloped yield curve by cautiously growing the balance sheet to enhance financial performance. We intend to grow all lending portfolios in both the business and retail sectors using growth in market-place low costing deposits to stabilize net interest margin and to enhance revenue performance." As of December 31, 2017, the loan-to-deposit ratio was 86% and loans were 73% of total assets. Also as of the same date, total assets, deposits, and stockholders' equity were \$863.6 million, \$551.5 million, and \$87.4 million, respectively.

**First National Community Bancorp, Inc. (OTCQX: FNCB)**. Headquartered in Dunmore (near Scranton), First National is a Pennsylvania-chartered bank holding company. Its wholly-owned subsidiary, First National Community Bank, was established as a national banking association in 1910, but converted to a state-institution in June 2016. The company operates 18 full-service branch offices within three contiguous counties, Lackawanna, Luzerne and Wayne, its primary market area in the northeast section of the state. In 2017, First National expanded its footprint into the Lehigh Valley through the opening of a limited purpose banking office in Allentown. The bank provides a wide variety of traditional banking products and services to individuals and businesses. Deposit products include various checking, savings and certificates of deposits, as well as a line of preferred products for higher-balance customers. As of December 31, 2017, total assets, deposits, and shareholders' equity were \$1.2 billion, \$1.0 billion, and \$89.2 million, respectively.

**FNB Bancorp, Inc. (OTC Pink: FBIP)**. Headquartered in Newtown, the company operates 17 branch offices across Bucks County. The bank was formed in 1864, and focuses on providing personalized services for its local communities. The median household income in Bucks County was approximately \$87,800, compared with the overall state median of approximately \$64,000. FNB has the sixth largest deposit market share (4.7%) in Bucks County. As of December 31, 2017, the loan-to-deposit ratio was 44% and loans were 39% of total assets. As of the same date, total assets, deposits, and shareholders' equity were \$926.5 million, \$816.9 million, and \$74.4 million, respectively.

**Harleysville Financial Corporation (OTCQX: HARL)**. Headquartered in Harleysville, Montgomery County, the company was founded in 1915 as a building and loan association. In 1987, Harleysville converted from a mutual institution to a publicly-owned company. Harleysville operates from nine full-service offices in Montgomery and Bucks counties. The primary business consists of attracting deposits from the general public and business customers through a variety of deposit programs and investing such deposits principally in first mortgage loans secured by residential properties in the company's primary market area. Harleysville has maintained a consistent cash dividend - the quarterly dividend has not been reduced in over 20 years. (On January 23, 2018, the quarterly cash dividend was raised by a penny to \$0.23 per share.) As of December 31, 2017, total assets, deposits, and shareholders' equity were \$773.6 million, \$549.8 million, and \$67.4 million, respectively.

**Malvern Bancorp, Inc. (NASDAQ: MLVF)**. Malvern Bancorp is the holding company of Malvern Federal Savings Bank. Organized as a mutual institution in 1887, the bank reorganized into the mutual holding company form of organization in 2008. The holding company was formed as part of the reorganization and associated "second step" conversion in October 2012. The company is headquartered in Paoli, and conducts business from eight full service offices in Chester and Delaware counties and a private banking loan production office in Morristown, New Jersey. On May 1, 2017, the company announced the opening of a new representative office in Palm Beach, Florida. Malvern offers a wide range of private banking and wealth management services. The company's primary lending area includes Chester and Delaware counties, along with contiguous Montgomery County and parts of New Jersey. The average balance of the loan portfolio increased to \$738.5 million in fiscal 2017 from \$508.0 million in fiscal 2016, primarily due to an increase in commercial real estate loans. The average loan portfolio was approximately 82% percent of average interest-earning assets during fiscal 2017. At December 31, 2017, the loan-to-deposit ratio was 101%. Also as of the same date, total assets, deposits, and shareholders' equity were \$1.1 billion, \$797.1 million, and \$103.2 million, respectively.

**Meridian Bank (NASDAQ: MRBK)**. Headquartered in Malvern, Meridian Bank (founded in 2004) is a full-service, state-chartered commercial bank with 20 offices in the greater Philadelphia metropolitan market. Meridian offers products to meet its retail and commercial customers' needs through three principal business line unit distribution channels. The primary focus is to serve small and middle-market businesses and their executives, entrepreneurs, real estate investors, professionals and high net worth individuals with a variety of financial services and solutions, while maintaining a disciplined approach to risk management. In November 2017, Meridian raised approximately \$46.0 million of common equity. Proceeds were used to repay preferred stock (\$12.8 million) and for general corporate purposes. As of December 31, 2017, the loan-to-deposit ratio was 111% and loans were 81% of total assets. Also as of the same date, total assets, deposits, and shareholders' equity were \$856.0 million, \$627.1 million, and \$101.4 million, respectively.

**Norwood Financial Corp. (NASDAQ: NWFL)**. Headquartered in Honesdale, Wayne County, Norwood Financial is the holding company of Wayne Bank, which is a Pennsylvania-chartered bank and trust company. The bank was originally chartered in 1870. Norwood operates 26 branches in Northeast Pennsylvania and the Southern Tier of New York. On July 31, 2016, the company acquired Delaware Bancshares, which had total assets of approximately \$375 million. The bank offers a wide variety of personal and business credit services and trust and investment products and real estate settlement services to the consumers, businesses, nonprofit organizations, and municipalities in each of the communities that the bank serves. As of December 31, 2017, the loan-to-deposit ratio was 81% and loans were 67% of total assets. As of the same date, total assets, deposits, and shareholders' equity were \$1.1 billion, \$929.4 million, and \$115.7 million, respectively.

**Peoples Financial Services Corp. (NASDAQ: PFIS).** Peoples Financial Services Corp., a bank holding company incorporated under the laws of Pennsylvania, provides a full range of financial services through its wholly-owned subsidiary, Peoples Security Bank and Trust Company, including its subsidiary, Peoples Advisors, LLC. In 2013, Penseco Financial Services Corporation merged with and into Peoples Financial Services. The company's principal market area is situated between Binghamton, Broome County, New York to the north and King of Prussia, Montgomery County to the south. About half of the company's offices are located in around Scranton, the largest city in Lackawanna County. During 2017, the company added two branch offices, one in Allentown, Lehigh County and one in Bethlehem, Northampton County to continue its strategic expansion initiative. The company provides a full range of retail and commercial lending products designed to meet the borrowing needs of consumers and small- and medium-sized businesses in its market areas. As of December 31, 2017, the loan-to-deposit ratio was 97% and loans were 77% of total deposits. As of the same date, total assets, deposits, and shareholders' equity were \$2.2 billion, \$1.7 billion, and \$265.0 million, respectively.

**Prudential Bancorp, Inc. (NASDAQ: PBIP).** Prudential Bancorp, Inc. is the holding company for Prudential Bank, which was originally organized in 1886. The company completed its mutual holding company reorganization and concurrent "second step" offering in November 2012. The bank conducts business from its headquarters and main office in Philadelphia, as well as 10 additional full-service financial centers, eight of which are in Philadelphia, one in Drexel Hill, Delaware County, and one in Huntingdon Valley, Montgomery County. On January 1, 2017, Prudential completed its acquisition of Polonia Bancorp, which had total assets of approximately \$285 million. Most of Prudential Bancorp's business activities are conducted within a few hours' drive from Philadelphia and include New Jersey, eastern Pennsylvania, Delaware and southern New York. As of December 31, 2017, the loan-to-deposit ratio was 90% and loans were 64% of total assets, deposits, and shareholders' equity were \$844.2 million, \$595.1 million, and \$130.8 million, respectively.

**QNB Corp. (OTC Pink: QNBC).** QNB Corp. was incorporated in 1984 and is a Pennsylvania-chartered bank holding company and conducts its business through its wholly-owned subsidiary, QNB Bank. Prior to December 28, 2007, the bank was a national banking association organized in 1877 as The Quakertown National Bank. The company is headquartered in Quakertown, Bucks County, and operates 12 full-service community banking offices in Bucks, Montgomery and Lehigh counties in southeastern Pennsylvania. The bank is engaged in the general commercial banking business and provides a full range of banking services to its customers. Based on its recent Form 10-K, the company believes its strong focus on small-business solutions, providing fast local decision-making on loans, exceptional personal customer service and technology solutions, including internet- and mobile-banking, electronic bill pay and remote deposit capture, helps to enable QNB to compete successfully. As of December 31, 2017, the loan-to-deposit ratio was 73% and loans were 63% of total assets. As of the same date, total assets, deposits, and shareholders' equity were \$1.2 billion, \$994.0 million, and \$98.6 million, respectively.

**Republic First Bancorp (NASDAQ: FRBK).** Republic First is the holding company for Republic First Bank, which does business under the name Republic Bank. Republic offers credit and depository banking services to individuals and businesses primarily in Greater Philadelphia and southern New Jersey. In July 2016, Republic acquired Oak Mortgage Company. A decade ago, Republic shifted its focus to the creation of a major retail bank that would meet an important need in the existing marketplace. As other banks began to turn toward automation for growth, Republic took a different approach and chose not only to embrace advances in technology, but to also define itself by the personal touch. Several key banking executives were recruited who had previously served in leadership roles at Commerce Bank, upon which Republic's business model draws inspiration. In December 2016, Republic raised \$100 million of capital through a registered direct offering of common stock. At the same time, Vernon W. Hill, II joined the Board of Directors and was appointed Chairman of Republic First Bancorp. He has been a major investor and consultant to Republic since 2008. Insider ownership was 12.8%. As of December 31, 2017, the loan-to-deposit ratio was 58% and loans were 53% of total assets. Total assets, deposits, and shareholders' equity were \$2.3 billion, \$2.1 billion, and \$226.5 million, respectively.

**Univest Corporation of Pennsylvania, Inc. (NASDAQ: UVSP)**. The corporation is headquartered in Souderton, which is located approximately thirty-five miles north of Philadelphia. The highest concentration of deposits and loans are in Montgomery and Bucks counties where 27 out of the company's 41 financial centers are located. The acquisition of Fox Chase Bancorp on July 1, 2016 expanded the company's presence in Montgomery, Bucks, Philadelphia, and Chester counties in Pennsylvania and into Cape May County in New Jersey. In addition to financial centers gained through acquisitions, Univest opened a financial center located in each county of Philadelphia, Lehigh, and Lancaster in Pennsylvania during 2016. The acquisition of Valley Green Bank on January 1, 2015, brought the corporation into the Philadelphia marketplace with three full-service branches and two offices for loan production offices. In December 2017, Univest completed its public offering of 2.64 million shares of common stock at \$28.25 per share which resulted in an increase in shareholders' equity of \$70.5 million. As of December 31, 2017, the loan-to-deposit ratio was 101%, loans were 79% of total assets, and the tangible equity capital ratio was 8.2%. As of the same date, total assets, deposits and stockholders' equity were \$4.6 billion, \$3.6 billion, and \$603.4 million, respectively.



## Company Ratios

### Profitability

The Eastern Pennsylvania banking market is dominated by large multi-national and super-regional banks. As is the case with community banks in general, Eastern Pennsylvania's banks are challenged to better develop customer relationships, achieve a higher earnings growth rate, and gain market share. If the yield curve flattens following the Fed's policy to raise interest rates, banks will be hurt as the majority of revenue depends upon spread income. As is the case with all banks across the nation, the highlighted institutions should benefit from less costly regulation and lower taxes.

The need to attract and retain core funding is the industry's top priority for 2018. Because customer deposits are generally the cheapest form of funding, core deposits will take on increased importance if and when interest rates rise. Banks will need to provide the right products and services to customers, and limit excess liquidity. **We doubt that all banks will be able to meet core funding needs organically, and therefore, believe the quest for core deposits will be an important merger and acquisition driver in 2018.**

**Figure 6: Net Interest Margin**

	For the quarter ending		
	Dec. 31, 2017	Sept. 30, 2017	Dec. 31, 2016
Highlighted Eastern PA Banks	3.27%	3.23%	3.07%
PA Banks <sup>1</sup>	3.51%	3.55%	3.40%
U.S. Banks <sup>1</sup>	3.64%	3.63%	3.51%

<sup>1</sup>Includes banks with assets between \$750 million and \$10 billion.

Source: S&P Global Market Intelligence

As shown below, weighted average yields on loans and investment securities vary widely among the institutions depending upon the individual banks' loan and investment composition, term-to-maturities, and risk profile. **Total loans as a percentage of total assets (73%) and the loan-to-deposit ratio (97%) for the highlighted companies were around the national medians of 73% and 90%, respectively.** The medians for the same ratios regarding peer institutions in the mid-Atlantic region were 76% and 96%, respectively. Please see Figures 8 and 9 for a break-out of the individual banks' loan composition.

As of December 31, 2017, the median investment securities-to-total asset ratio was 17% for the highlighted Eastern Pennsylvania banks compared with a median ratio of 18% for peer banks in the mid-Atlantic region as of the same date. The median ratio for the same size banks on a national basis was 17% as of December 31, 2017. **As a general rule in the rising short-term interest rate environment, banks must pay greater attention to their profitability potential while attending to interest rate risk and liquidity demands.**



**Figure 7**

Institution	Ticker	ROAA (%)	ROAE (%)	ROATCE (%)	NIM (%)	Non-Int Inc/Rev (%)	Eff. Ratio (%)	Inv Sec / Assets (%)	Avg Inv Sec Yld (%)	Loans / Assets (%)	Loans / Dep. (%)	Loan Yld (%)
Beneficial Bancorp, Inc.	BNCL	0.41	2.3	2.9	3.14	14	69	15	2.21	69	97	4.23
Bryn Mawr Bank Corporation	BMTC	0.67	5.8	9.1	3.69	34	60	17	2.05	74	97	4.56
Customers Bancorp, Inc.	CUBI	0.77	8.7	9.8	2.73	24	60	6	2.89	88	100	3.98
DNB Financial Corporation	DNBF	0.74	7.9	9.5	3.73	12	64	17	NA	78	98	4.82
Embassy Bancorp, Inc.	EMYB	0.75	9.4	9.4	3.15	9	60	9	NA	86	95	3.82
ESSA Bancorp, Inc.	ESSA	0.42	4.1	4.8	2.77	15	77	22	2.50	70	103	3.92
Fidelity D & D Bancorp, Inc.	FDBC	1.03	10.3	10.4	3.70	23	65	19	3.26	73	87	4.33
FNB Bancorp, Inc.	FBIP	0.50	5.5	5.5	2.68	20	67	52	1.99	39	45	4.35
FNCB Bancorp, Inc.	FNCB	0.01	0.2	0.2	3.23	14	70	25	2.76	66	77	4.13
Harleysville Financial Corp.	HARL	0.74	8.4	8.4	2.83	10	62	17	NA	76	105	4.33
Malvern Bancorp, Inc.	MLVF	0.62	5.8	5.8	2.72	7	58	8	2.29	77	102	4.18
Meridian Bank	MRBK	0.39	4.0	3.3	3.93	56	87	7	NA	85	111	5.12
Norwood Financial Corp.	NWFL	0.73	7.0	7.9	3.56	15	54	25	NA	67	82	4.50
Peoples Financial Services	PFIS	0.90	7.0	9.8	3.69	19	60	13	2.82	77	98	4.39
Prudential Bancorp, Inc.	PBIP	0.35	2.2	2.3	2.90	8	61	31	2.77	62	90	4.09
QNB Corp.	QNBC	0.74	8.2	8.2	3.14	14	60	33	2.41	63	74	4.43
Republic First Bancorp, Inc.	FRBK	0.43	4.0	4.1	3.23	25	85	40	2.53	52	56	4.65
Univest Corp. of PA	UVSP	1.01	8.4	13.2	3.78	29	62	11	NA	79	102	4.56
<b>Median</b>		<b>0.70</b>	<b>6.4</b>	<b>8.1</b>	<b>3.19</b>	<b>15</b>	<b>62</b>	<b>17</b>	<b>2.51</b>	<b>73</b>	<b>97</b>	<b>4.34</b>

Financial data as of or for the year ending December 31, 2017.  
Source: S&P Global Market Intelligence

## Lending Activities

As is the case with most community banks and thrifts, Eastern Pennsylvania banks are dependent upon interest income from loans for revenue growth. Net interest income represents 80-85% of total revenue for the highlighted banks in this report. These community banks have generally benefited from a local presence and industry consolidation.

**Figure 8**

Institution	Ticker	Commercial						Total Loans (\$000s)
		Residential Real Estate (\$000s)	& Multifamily Real Estate (\$000s)	Consumer (\$000s)	Const. & Dev. (\$000s)	Comm. & Industrial (\$000s)	Other (\$000s)	
Beneficial Bancorp, Inc.	BNCL	1,263,334	1,782,697	322,252	154,595	439,727	71,791	4,034,396
Bryn Mawr Bank Corporation	BMTC	959,199	1,584,276	37,887	227,014	351,929	129,347	3,289,652
Customers Bancorp, Inc.	CUBI	413,680	5,219,974	61,906	97,388	830,188	2,084,607	8,707,743
DNB Financial Corporation	DNBF	278,640	424,637	5,770	75,448	45,937	16,116	846,548
Embassy Bancorp, Inc.	EMYB	531,155	265,338	893	21,166	36,406	3,793	858,751
ESSA Bancorp, Inc.	ESSA	671,153	271,569	185,518	49,423	52,847	55,658	1,286,168
Fidelity D & D Bancorp, Inc.	FDBC	255,698	168,123	80,214	16,528	78,925	41,381	640,869
FNB Bancorp, Inc.	FBIP	140,077	151,947	8,708	20,070	4,749	39,162	364,713
FNCB Bancorp, Inc.	FNCB	180,202	261,534	116,506	20,981	148,901	43,614	771,738
Harleysville Financial Corp.	HARL	415,155	154,849	486	11,796	10,282	65	592,633
Malvern Bancorp, Inc.	MLVF	259,524	428,082	2,435	53,226	71,934	-	815,201
Meridian Bank	MRBK	235,658	208,175	1,122	103,422	180,457	827	729,661
Norwood Financial Corp.	NWFL	257,203	310,037	70,387	17,228	49,916	59,813	764,584
Peoples Financial Services	PFIS	372,221	706,816	143,611	118,503	272,060	79,960	1,693,171
Prudential Bancorp, Inc.	PBIP	352,629	131,965	1,894	91,227	3,331	3,617	584,663
QNB Corp.	QNBC	201,187	286,866	6,699	53,034	144,699	40,798	733,283
Republic First Bancorp, Inc.	FRBK	242,218	687,827	1,336	104,617	118,002	53,978	1,207,978
Univest Corp. of PA	UVSP	840,631	1,399,928	28,392	175,835	771,726	405,197	3,621,709
<b>Median</b>		<b>315,635</b>	<b>298,452</b>	<b>18,550</b>	<b>64,337</b>	<b>98,464</b>	<b>42,498</b>	<b>830,875</b>

Loan balances include loans held for sale. Loan balances are by collateral type, not business purpose.  
As of December 31, 2017  
Source: S&P Global Market Intelligence, Q4 2017 Call Report

Figure 9

Institution	Ticker	Residential Real Estate (%)	Commercial & Multifamily Real Estate (%)	Consumer (%)	Const. & Dev. (%)	Comm. & Industrial (%)	Other (%)	Commercial RE Loans / Total RBC (%)
Beneficial Bancorp, Inc.	BNCL	31%	44%	8%	4%	11%	2%	192%
Bryn Mawr Bank Corporation	BMTC	29%	48%	1%	7%	11%	4%	355%
Customers Bancorp, Inc.	CUBI	5%	60%	1%	1%	10%	24%	418%
DNB Financial Corporation	DNBF	33%	50%	1%	9%	5%	2%	263%
Embassy Bancorp, Inc.	EMYB	62%	31%	0%	2%	4%	0%	226%
ESSA Bancorp, Inc.	ESSA	52%	21%	14%	4%	4%	4%	126%
Fidelity D & D Bancorp, Inc.	FDBC	40%	26%	13%	3%	12%	6%	83%
FNB Bancorp, Inc.	FBIP	38%	42%	2%	6%	1%	11%	104%
FNCB Bancorp, Inc.	FNCB	23%	34%	15%	3%	19%	6%	147%
Harleysville Financial Corp.	HARL	70%	26%	0%	2%	2%	0%	186%
Malvern Bancorp, Inc.	MLVF	32%	53%	0%	7%	9%	0%	333%
Meridian Bank	MRBK	32%	29%	0%	14%	25%	0%	156%
Norwood Financial Corp.	NWFL	34%	41%	9%	2%	7%	8%	153%
Peoples Financial Services	PFIS	22%	42%	8%	7%	16%	5%	263%
Prudential Bancorp, Inc.	PBIP	60%	23%	0%	16%	1%	1%	162%
QNB Corp.	QNBC	27%	39%	1%	7%	20%	6%	172%
Republic First Bancorp, Inc.	FRBK	20%	57%	0%	9%	10%	4%	264%
Univest Corp. of PA	UVSP	23%	39%	1%	5%	21%	11%	210%
<b>Median</b>		<b>32%</b>	<b>40%</b>	<b>1%</b>	<b>5%</b>	<b>10%</b>	<b>4%</b>	<b>189%</b>

Loan balances include loans held for sale. Loan balances are by collateral type, not business purpose.

Commercial RE Loans / Total RBC Ratio is based on bank entity data, not holding company data.

As of December 31, 2017

Source: S&P Global Market Intelligence, Q4 2017 Call Report

## Asset Quality

Asset quality has generally remained good although borrowers could be stressed should interest rates rise significantly.

Figure 10

Institution	Ticker	Reported NPAs (\$000s)	NPAs/Assets (%)	NPAs/Loans & REO (%)	NCOs/ Avg Loans (%)	Loan Loss Prov./ NCO (%)	Loan Loss Reserves/ Total Loans (%)	LTM Loan Growth (%)
Beneficial Bancorp, Inc.	BNCL	34,862	0.60%	0.86%	0.10	100	1.07	0.6
Bryn Mawr Bank Corporation	BMTC	8,883	0.20%	0.27%	0.08	194	0.53	29.5
Customers Bancorp, Inc.	CUBI	28,141	0.29%	0.42%	0.05	74	0.44	5.3
DNB Financial Corporation	DNBF	12,565	1.16%	1.48%	0.06	298	0.69	3.5
Embassy Bancorp, Inc.	EMYB	5,953	0.60%	0.69%	0.08	219	0.82	7.5
ESSA Bancorp, Inc.	ESSA	15,676	0.86%	1.22%	0.17	188	0.76	1.4
Fidelity D & D Bancorp, Inc.	FDBC	6,291	0.73%	0.98%	0.43	76	1.44	6.8
FNB Bancorp, Inc.	FBIP	NA	NA	NA	-	NM	1.21	6.1
FNCB Bancorp, Inc.	FNCB	5,501	0.47%	0.71%	0.06	255	1.17	5.4
Harleysville Financial Corp.	HARL	NA	NA	NA	0.18	64	0.67	7.6
Malvern Bancorp, Inc.	MLVF	2,587	0.24%	0.32%	(0.02)	NM	1.03	45.3
Meridian Bank	MRBK	3,594	0.42%	0.52%	0.20	196	0.92	13.2
Norwood Financial Corp.	NWFL	4,140	0.37%	0.54%	0.28	76	1.00	6.9
Peoples Financial Services	PFIS	11,577	0.53%	0.68%	0.26	112	1.12	10.4
Prudential Bancorp, Inc.	PBIP	16,552	1.77%	2.83%	-	NM	0.80	65.6
QNB Corp.	QNBC	9,242	0.80%	1.26%	0.55	71	1.07	15.8
Republic First Bancorp, Inc.	FRBK	21,811	0.94%	1.87%	0.02	NM	0.71	21.9
Univest Corp. of PA	UVSP	28,556	0.63%	0.79%	0.11	203	0.60	10.0
<b>Median</b>		<b>10,410</b>	<b>0.60%</b>	<b>0.75%</b>	<b>0.09</b>	<b>150</b>	<b>0.87</b>	<b>7.6</b>

Financial data as of or for the three months ending December 31, 2017.

Source: S&P Global Market Intelligence

## Deposits:

We believe the crown jewels of a company's franchise value rests in its core deposit base. As of December 31, 2017, the median core deposit ratio for the highlighted banks was 79%, and non-interest bearing deposits were 17% of total deposits. We define core deposits as all deposits excluding certificates of deposit. We believe that core deposits, particularly non-interest bearing deposits, become even more valuable in a rising interest rate environment.

**Figure 11**

Institution	Ticker	Non-Interest Bearing Deposits (\$000s)		Interest Bearing (ex-Time) Deposits (\$000s)		Time Deposits (\$000s)		Total Deposits (\$000s)
Beneficial Bancorp, Inc.	BNCL	563,185	14%	2,730,608	66%	856,700	21%	4,150,493
Bryn Mawr Bank Corporation	BMTC	924,844	27%	1,744,823	52%	704,131	21%	3,373,798
Customers Bancorp, Inc.	CUBI	1,052,115	15%	3,842,334	57%	1,905,693	28%	6,800,142
DNB Financial Corporation	DNBF	176,815	21%	502,086	58%	182,302	21%	861,203
Embassy Bancorp, Inc.	EMYB	139,974	16%	617,962	69%	142,918	16%	900,854
ESSA Bancorp, Inc.	ESSA	151,718	12%	576,036	46%	523,267	42%	1,251,021
Fidelity D & D Bancorp, Inc.	FDDB	178,631	24%	444,449	61%	107,066	15%	730,146
FNB Bancorp, Inc.	FBIP	314,491	39%	427,233	52%	75,128	9%	816,852
FNCB Bancorp, Inc.	FNCB	176,325	18%	633,784	63%	192,339	19%	1,002,448
Harleysville Financial Corp.	HARL	58,273	10%	347,546	61%	164,670	29%	570,489
Malvern Bancorp, Inc.	MLVF	45,756	6%	496,583	62%	254,760	32%	797,099
Meridian Bank	MRBK	100,454	16%	308,245	49%	218,410	35%	627,109
Norwood Financial Corp.	NWFL	205,138	22%	403,952	43%	320,294	34%	929,384
Peoples Financial Services	PFIS	380,729	22%	1,056,055	61%	282,234	16%	1,719,018
Prudential Bancorp, Inc.	PBIP	11,578	2%	224,388	34%	416,066	64%	652,032
QNB Corp.	QNBC	129,212	13%	639,554	64%	225,182	23%	993,948
Republic First Bancorp, Inc.	FRBK	438,500	21%	1,508,058	73%	116,737	6%	2,063,295
Univest Corp. of PA	UVSP	1,040,026	29%	1,940,144	55%	574,749	16%	3,554,919
<b>Median</b>		<b>177,723</b>	<b>17%</b>	<b>596,999</b>	<b>60%</b>	<b>239,971</b>	<b>21%</b>	<b>961,666</b>

As of December 31, 2017.

Source: S&P Global Market Intelligence

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