



Mergers & Acquisitions: A Look at Pennsylvania

“Should I Stay or Should I Go?”

Bank consolidation in Pennsylvania has regained some traction after two sleepy years that included only a few sizable transactions. We believe that the lack of prominent Keystone State deals is a matter of timing, rather than structural given the steady deal pace nationwide. We also think that Pennsylvania deal activity will accelerate given that many banks lack the scale to successfully meet industry-wide revenue, regulatory, and technological challenges. (Earnings, however, should rise due largely to lower tax rates.) Along with succession issues, all of the aforementioned hurdles can be overcome via mergers. Overall credit quality remains quite good and should not impede consolidation activity in 2018. Buyers are primarily motivated to efficiently obtain core deposits and gain economies of scale (along with synergies). Many potential buyers, moreover, enjoy strong currencies, which can support higher deal premiums. That said, banks are sold and not bought.

**Pennsylvania’s “sweet spot” regarding mergers and acquisitions rests among banks with total assets ranging from approximately \$750 million to \$5 billion.** Anecdotal evidence suggests that most of these banks are motivated buyers rather than sellers. Assuming such is the case, the pricing power of potential sellers – particularly those with good deposit franchises – are enhanced by their “scarcity values”. Although relatively few larger Pennsylvania banks have the capacity to acquire, several out-of-state banks appear to be willing buyers. Larger community banks, have a more viable “exit strategy” given recent legislation that raises the SIFI designation to \$250 billion in assets from \$50 billion. Merger of equals often make financial sense, but social factors have historically limited this type of transaction.

Jamie Dimon, Chairman and CEO of JPMorgan Chase & Co., recently stated that the banking industry is in a “golden age”. Although comparisons between America’s banking goliaths and community banks are often pointless, we believe Mr. Dimon’s proclamation encompasses “community banks” at this time. **Ambassador Financial suggests, therefore, that in order to take advantage of this “golden age” of banking, community bankers contemplating selling within the next two years or so may want to accelerate that timetable.** Why? Because it remains a sellers’ market due in part to the aforementioned scarcity of quality institutions willing to relinquish independence.

**The desire among all community banks to gain lower-cost and stable deposits (especially when market rates rise) should cause merger activity to advance.** Nationwide, there were 130 bank and thrift deals announced since January 1, 2018, compared with 115 deals for the same period, last year. The primary goals of buyers’ appear to be to improve funding and expand the geographic franchise.

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## Highlights

- There are 143 depository institutions, including 87 which are publicly-traded, headquartered in Pennsylvania. The top five banks have a combined deposit market share of approximately 51%. PNC Financial Services (NYSE: PNC) is the market leader with a 23% deposit share. Of the top ten Pennsylvania banks in terms of deposit market share, only PNC and FNB Corporation (NYSE: FNB) are headquartered in-state.
- Although Pennsylvania has more community banks than most states, its geography tends to limit consolidation as many natural barriers isolate otherwise contiguous markets.
- As we go to press, there were four announced transactions in 2018 that involved Pennsylvania-based sellers vs. seven for fiscal 2017, five for fiscal 2016, and 14 for fiscal 2015. Market dynamics in the Keystone State appear conducive to an acceleration in deal pace however that doesn't mean it will. Most of the state's community banks appear more interested in buying, rather than selling.
- There are seven banks in the Keystone State with total assets between \$2 and \$6 billion. Banks in this size range are often considered prime takeout candidates for institutions with assets hovering around \$10 billion. On the other hand, there are over 20 institutions with total assets in the approximate range of \$1 to \$2 billion that should be interested in gaining scale through mergers and acquisitions.
- Because the SIFI designation was raised to \$250 billion in assets, larger community banks have become more desirable merger partners. Community banks headquartered in Pennsylvania with assets over \$10 billion include Customers Bancorp (NASDAQ: CUBI), FNB Corporation, Fulton Financial (NASDAQ: FULT), and Northwest Bancshares (NASDAQ: NWBI) (pro forma). (Northwest recently announced the acquisition of Donegal Financial Services Corporation. Ambassador Financial Group, Inc. served as financial advisor to Northwest.)
- 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, Inc. (NASDAQ: BNCL); Bryn Mawr Bank Corp. (NASDAQ: BMTC), FNB Corporation, Northwest, S&T Bancorp Inc. (NASDAQ: STBA), and Univest Corporation of Pennsylvania (NASDAQ: UVSP). Fulton appears to be sidelined due to regulatory issues.
- Out-of-state institutions that could be interested in expanding their Pennsylvania market share include: Community Bank System (NYSE: CBU), NBT Bancorp, Inc. (NASDAQ: NBTB), Provident Financial Services (NYSE: PFS), Tompkins Financial Corporation (NYSE: TMP), WSFS Financial Corporation (NASDAQ: WSFS), and WesBanco, Inc. (NASDAQ: WSBC).
- As we go to press, there were 130 bank and thrift deals announced nationally since January 1, 2018, compared with 115 deals over the comparable time period in 2017. There were 260 and 241 bank and thrift deals announced nationally in 2017 and 2016, respectively.
- Nationally, the median price to tangible book value and price to trailing 12-months earnings (at announcement) was 171% and 25.1x for deals announced since the start of 2018. The median price to book value ratios were 161% and 133% for fiscal 2017 and 2016, respectively. The median price to trailing 12-month earnings was 21.9x and 20.2x for the years ending December 31, 2017, and 2016, respectively.
- On a national basis, the core deposit premium (at announcement) was 11.1% for deals announced since the start of 2018, vs. 9.1% and 4.5% for the years ending December 31, 2017, and 2016, respectively. Core deposit premiums

have increased, but remain below core deposit premiums that were paid 10 years ago (median premiums for 2007 were 15.4%)

- 📦 Rightly or wrongly, analysts and investors pay much attention to tangible book value dilution and earn-back periods. The preferable earn-back period is 4.5 years or less, although market sentiment does vary.
- 📦 Lower corporate tax rates and higher earnings (assuming all other things remain equal) muddy the results from earn-back analyses prepared prior to the Tax Cut and Jobs Act.
- 📦 Banks with total assets below \$1 billion or so typically receive lower acquisition premiums compared with larger banks. That said, smaller banks with strong core deposits and/or are located in attractive markets can expect to receive outsized deal premiums.
- 📦 Supervisory demands have increased director responsibilities and potential liabilities far beyond higher compensation and other benefits. We question whether these burdens will help performance or cause more community bank directors to decide to sell. On an aggregate basis, however, it appears that major changes in the overall economy have a more significant impact on bank merger activity.
- 📦 Depending upon the deal price, acquiring core deposits may be preferable vs. organic growth.
- 📦 Despite more ability and willingness on the part of buyers to make acquisitions, consolidation activity could be restrained by managements' desire to remain independent for social and other reasons, rather than strictly adhering to the discipline of maximizing shareholder value. Mergers of equals often make sense financially but rarely occur due to social factors. The difficulty of forming a de novo bank probably restricts deal activity, as sellers have one less career path option.
- 📦 Economic activity associated with the Marcellus Shale fields has picked up along with higher energy prices. This could benefit many smaller banks in those areas and make them desirable acquisition targets.
- 📦 Pennsylvania's community financial institutions with assets less than \$15 billion generated median returns on average assets (ROAA) and average equity (ROAE) of approximately 0.78% and 7.5%, respectively, over the past 12 months, which suggests that the banking environment is okay, but not excellent.
- 📦 Effective cyber-security is a growing concern and involves much more than a one-time technology upgrade. Management and staff must exercise proper corporate governance and prove to regulators that complex operational risk issues are under control.
- 📦 Companies that invest in technology and enhanced management systems should seek strategic partnerships to realize economies of scale. One of the bigger cost elements related to compliance is staffing, and smaller banks, in particular, are more apt to sell as they often lack the critical mass of interest-earning assets and/or other revenue drivers to offset fixed costs.

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## Recent Pennsylvania Deals (Since 2014)

Buyer/Target Name	Status	Completion Date**	Deal Value (\$MM)	Price/Tangible Book (%)	Price/LTM Earnings (X)	Core Deposit Premium (%)
<b>Northwest Bancshares, Inc./ Donegal Financial Services Corp.*</b>	<b>Pending</b>	<b>6/12/2018</b>	<b>86.1</b>	<b>174</b>	<b>NA</b>	<b>NA</b>
<b>Orrstown Financial Services, Inc./ Mercersburg Financial Corporation*</b>	<b>Pending</b>	<b>5/31/2018</b>	<b>32.2</b>	<b>156</b>	<b>35.7</b>	<b>8.5</b>
Emclaire Financial Corp./ Community First Bancorp, Inc.	Pending	5/25/2018	17.7	195	26.9	11.1
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	Completion	4/30/2018	12.6	214	38.1	36.3
<b>Mid Penn Bancorp, Inc./ Scottsdale Bank &amp; Trust Company*</b>	<b>Completion</b>	<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>	<b>Completion</b>	<b>4/30/2017</b>	<b>2.3</b>	<b>87</b>	<b>NM</b>	<b>-1.0</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	101	NM	NA
<b>DNB Financial Corporation/ East River Bank*</b>	<b>Completion</b>	<b>10/1/2016</b>	<b>49</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
Emclaire 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 Frederickburg	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	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./ FNBM 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	109	25.2	2.4
National Penn Bancshares, Inc./ TF Financial Corporation	Completion	10/24/2014	141.6	154	19.0	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	-6.0

\*Ambassador Deals; \*\*Announcement date is listed for pending deals

Source: S&P Global Market Intelligence

## Valuation Summary

Banks generally turned in good results for the quarter ending March 31, 2018, due in large part to lower tax rates and the stronger economy. Our sense, however, is that, overall, bank stocks are fairly valued.

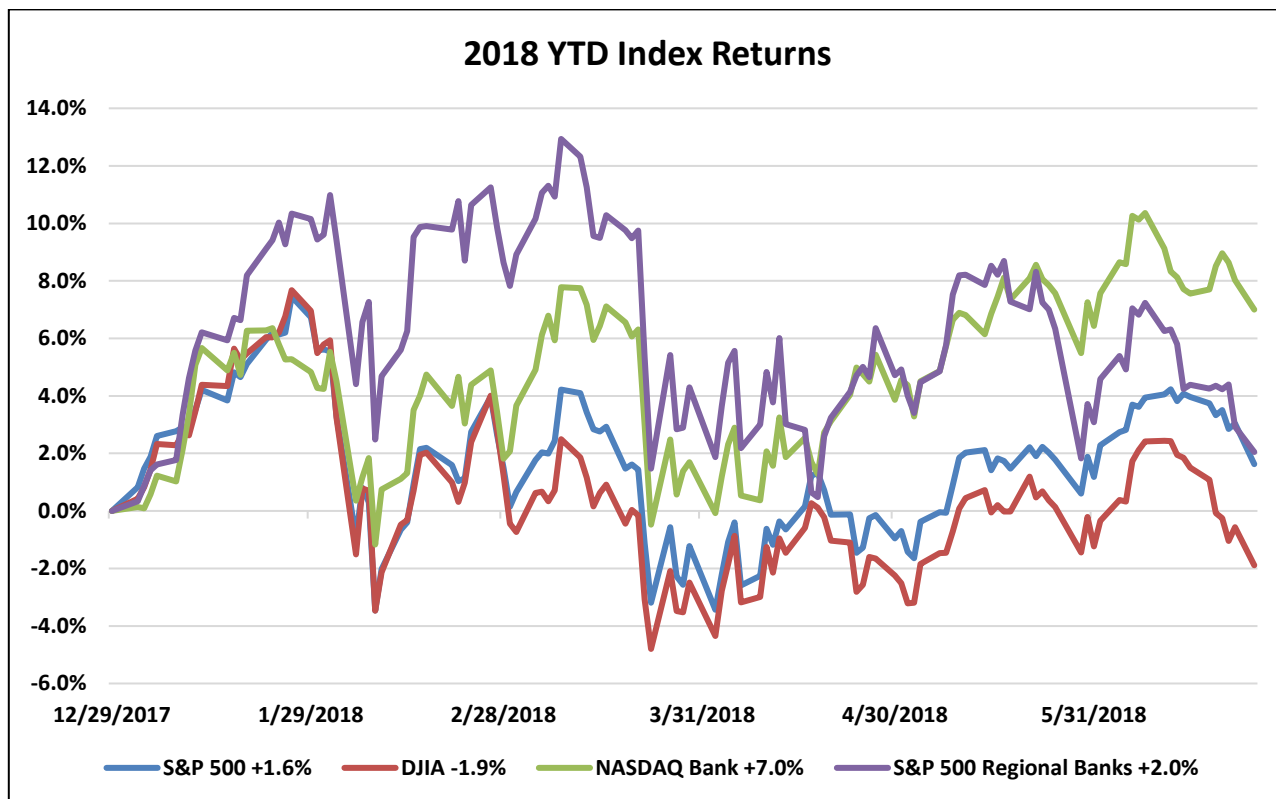
Community bank investors are likely more focused on price-to-book value measures than is usually the case given the difficulty of comparing earnings over the last 12 months and the lack of earnings estimates for the majority of banks with relatively low market capitalizations. This, however, will likely 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.

Figure 2:

	Median LTM P/E (x)	Median Price/TBV (%)
Pennsylvania Banks	18.6	144
Mid-Atlantic Banks	19.3	142
All U.S. Banks	19.4	154

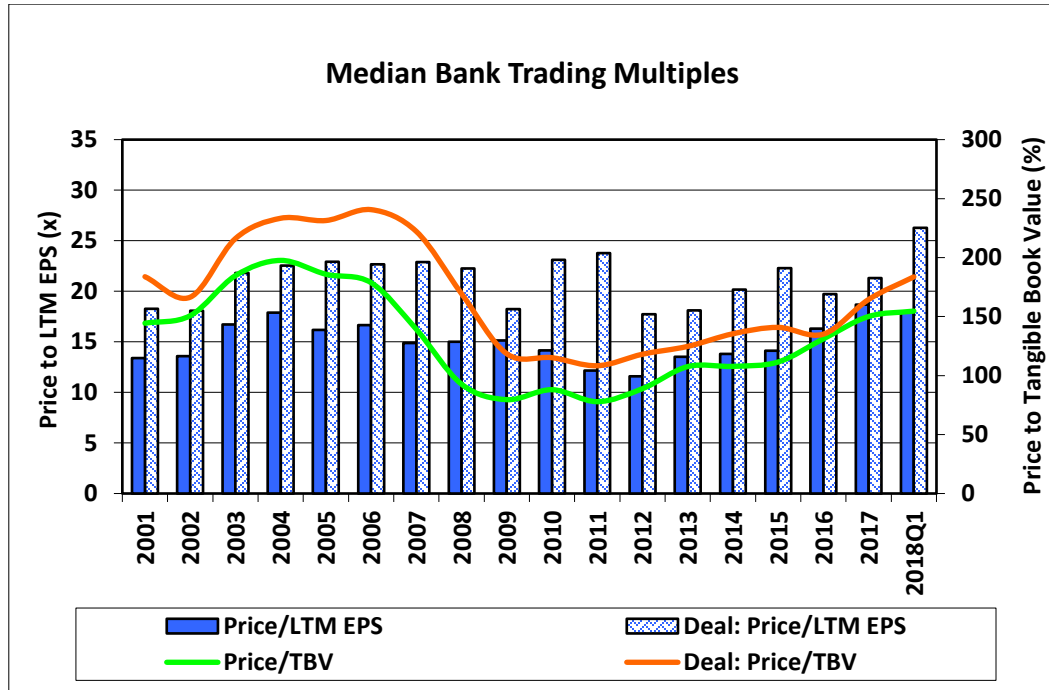
Source: S&P Global Market Intelligence  
Pricing data as of June 18, 2018  
Financial data as of or for the period ending March 31, 2018

Figure 3



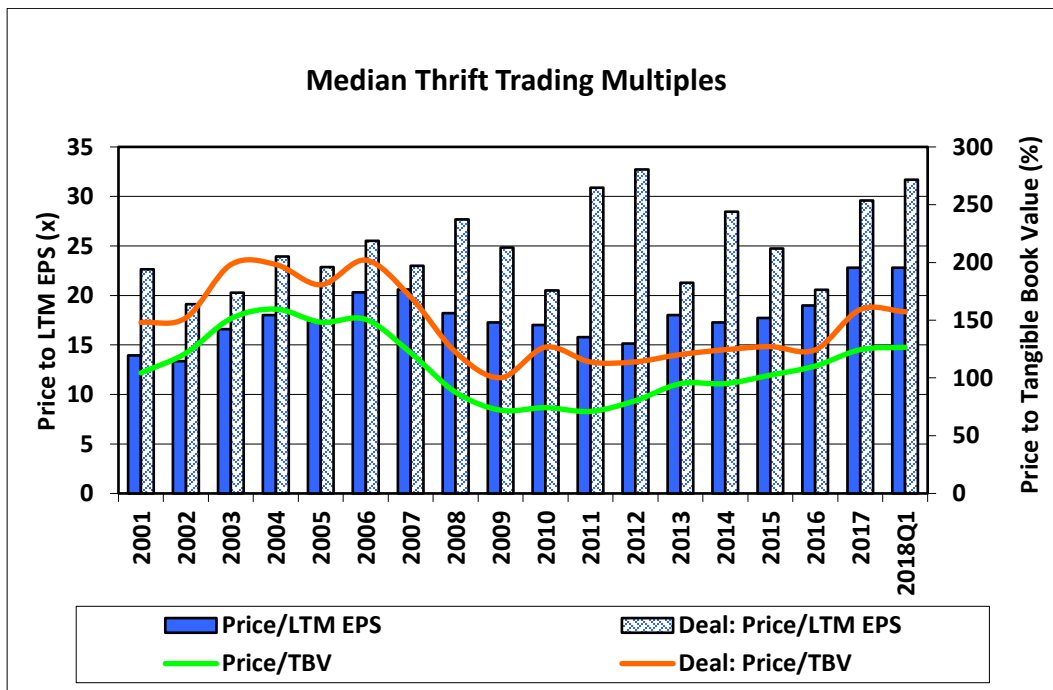
Source: S&P Global Market Intelligence. Pricing data as of June 25, 2018 excluding dividends.

Figure 4



Includes all publicly traded U.S. banks  
 Source: S&P Global Market Intelligence

Figure 5



Includes all publicly traded U.S. thrifts  
 Source: S&P Global Market Intelligence

## Investment Summary

**Pennsylvania fits in with our overall view that the U.S. banking industry will continue to consolidate to alleviate irrational pricing decisions and achieve economies of scale.** Both potential buyers and sellers have the means and motivation to enter into strategic partnerships. Merger activity has continued across the nation, including Pennsylvania, over the past few years due in large part to the abundance of smaller community banks. Franchises located in economically vibrant areas tend to receive higher takeout premiums, although slow-growing and rural markets can also be desirable because of their core deposits. This is particularly true in a rising rate environment whereby core deposits are even more prized.

On a national basis, there were 130 bank and thrift deals thus far in 2018, compared with 115 deals for the same period, last year and 243 deals for the 12 months ending December 31, 2016. Since the mid-1980s, there have been thousands of acquisitions/mergers as the number of banks decreased from approximately 15,000 to approximately 5,300 today.

Although better operating conditions will likely justify independence to some management teams, other bankers may be attracted by higher acquisition premiums. Asset quality continued to be strong through the March 2018 quarter and there doesn't appear to be many signs that credit will deteriorate in the foreseeable future. As is the case with the vast majority of community banks, local institutions are challenged to better develop customer relationships, achieve a higher earnings growth rate, and gain market share. Hard-to-predict interest rates present major challenges as the majority of revenue depends upon spread income. Overall, we believe that banks with a substantial portion of prime interest rate or LIBOR-based commercial loans are best-suited to take advantage of higher shorter-term interest rates.

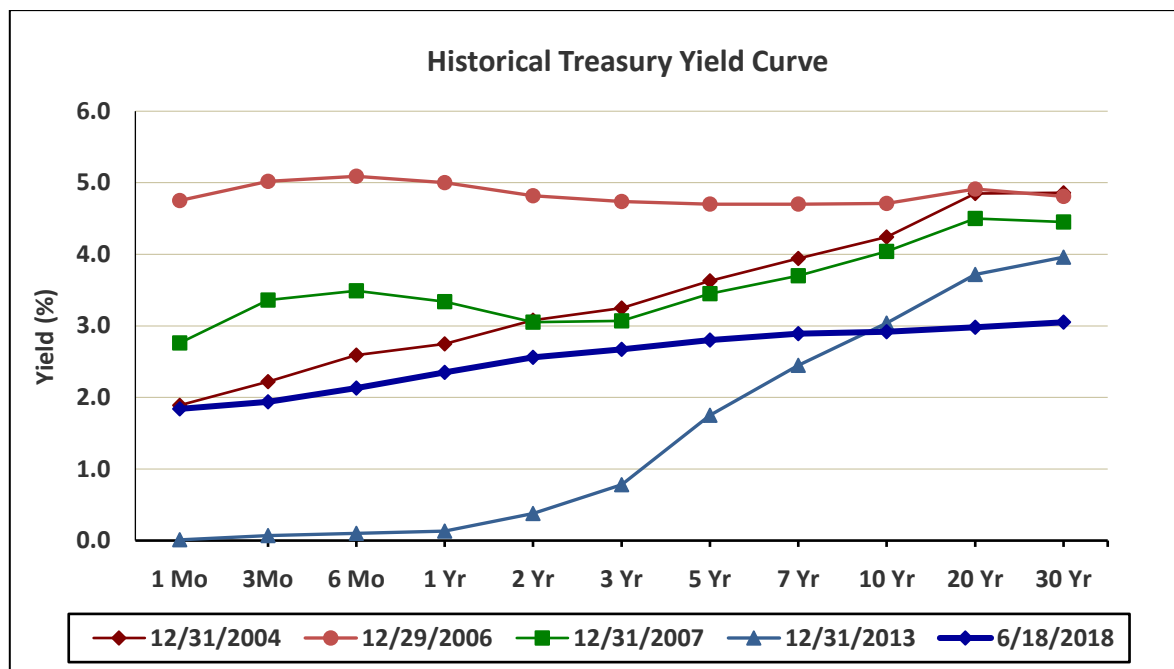
**We believe potential sellers continue to expect high deal prices despite ongoing earning challenges, including the potential for a flatter yield curve.** We can't argue with these expectations given the higher prices that sellers have received over the past year or so. We do believe, however, that many logical deals are not being done as potential acquirers balk at asking prices. This disparity is mainly because sellers focus on market premiums and buyers look at potential earnings per share gains, tangible book value dilution, and earn-back periods.

Arguably, the single largest challenge that face faster-growing community banks will be attracting and retaining core deposits should shorter-term interest rates continue to rise. 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 and 2019. (Among the smaller banks, succession issues will continue to drive deals.) Non-core funding will be obtainable, but at a higher cost.

We believe the yield curve will remain flattish or could even flatten more if the Fed continues to raise Fed funds rates. If so, banks will face the same problems as in the previous decade. When the curve flattened in 2005 and then inverted by mid-2006, net interest margins compressed and eventually credit soured from pristine levels as banks tried to boost earnings through higher-yielding, but dicey loans and investment securities. Although credit quality generally remained steadfast through the first quarter of 2018, future losses and problem loans might increase significantly in the next credit cycle. **History may not repeat itself but merger and acquisition activity picked up considerably when the yield curve inverted in 2005-2006.**



Figure 6



Examples of recent deals with Pennsylvania sellers are shown below.

- On June 12, 2018, Northwest Bancshares agreed to acquire privately-owned, Donegal Financial Services Corporation, the parent company of Union Community Bank. The acquisition – expected to close in the first quarter of 2019 - expands Northwest’s presence in attractive Lancaster County markets and pushes total assets over the \$10 billion threshold in 2019. The transaction was valued at approximately \$86 million and equates to 174% of Union Community’s tangible book value and 18 times trailing 12-month earnings. Ambassador Financial Group served as financial advisor to Northwest.
- Orrstown Financial Services, Inc. (NASDAQ: ORRF) agreed to acquire Mercersburg Financial Corp. on May 31, 2018. The stock and cash deal was valued at approximately \$33 million. At the time of announcement, the transaction was priced at approximately 156% of both book and tangible book value and 35.7 times trailing 12-month earnings. The deal had a 62% market premium based on the closing price of Mercersburg on May 30, 2018. The deal is expected to close in the fourth quarter of 2018. Ambassador Financial Group served as financial advisor to Mercersburg.
- On January 16, 2018, Millersburg-based, Mid Penn Bancorp, Inc. (NASDAQ: MPB) agreed to acquire Malvern-based, First Priority Financial Corp. (OTCQX: FPBK). The deal (aggregate value of approximately \$90 million) expands Mid-Penn’s presence in faster-growing markets of Eastern Pennsylvania. The acquisition was priced at about 195% of First Priority’s tangible book value and 32.6 times trailing 12-month earnings. Mid Penn Bancorp completed its acquisition of western Pennsylvania-based, The Scottdale Bank & Trust Company in January 2018. Ambassador Financial Group served as financial advisor to Scottdale.
- On October 1, 2017, Harrisburg-based, Riverview Financial Corp. (OTCQX: RIVE) acquired Clearfield-based CBT Financial Corp. in a merger-of-equals valued at approximately \$50 million. The transaction was valued at 140%

and 20.2 times CBT's tangible book value and trailing 12-month earnings, respectively. Ambassador Financial Group, Inc. served as financial advisor to Riverview.

- On December 15, 2017, Bryn Mawr Bank Corporation completed its acquisition of Royal Bancshares of Pennsylvania. This in-market deal – both banks are located in Philadelphia's western suburbs – was valued at approximately \$126 million. The all-stock deal was valued at 277% of tangible book value and 12.3 times trailing 12-month earnings.

Due to Office of the Comptroller ("OCC") regulations that preclude a federally-chartered thrift from being acquired for a three year period following its initial mutual to stock conversion, thrifts that converted to stock form in 2015 become eligible to be taken over in 2018. These conversion regulations are generally followed by the FDIC for state-chartered institutions. On a national basis, about half of the total number of thrifts that completed standard or second-step conversions between 2009 and 2014 have either been acquired or entered into merger agreements.

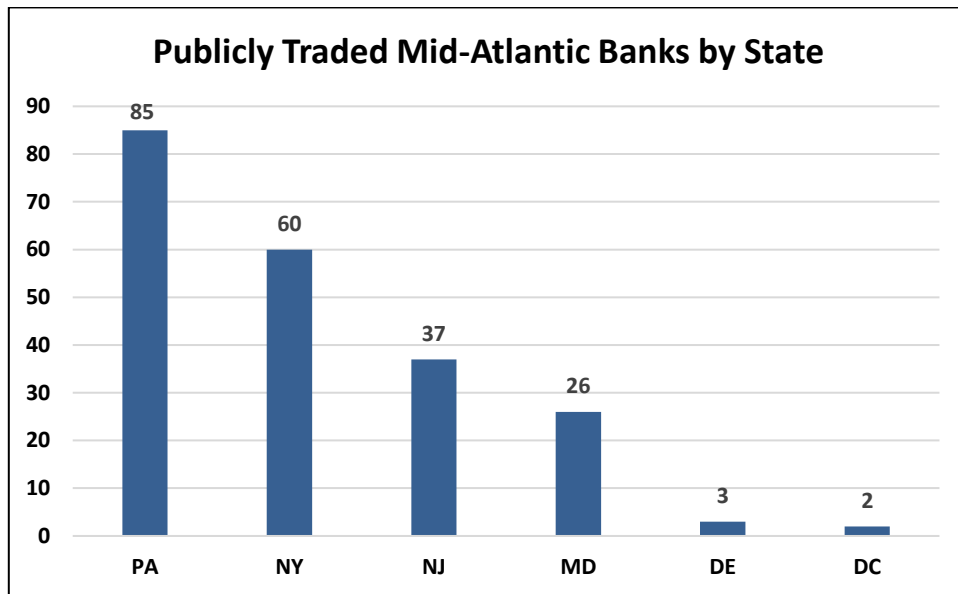
#### **Recently-converted Pennsylvania institutions are shown below.**

- Beneficial Bancorp, Inc. Philadelphia's largest locally-headquartered bank, completed its second step in January 2015; and trades around 150% of tangible book value. As of March 31, 2018, Beneficial had total assets of \$5.8 billion and a tangible capital ratio of 15.0%.
- Headquartered in the heart of South Philly, Prudential Bancorp, Inc. (NASDAQ: PBIP) completed its second step in October 2013. As of March 31, 2018, Prudential had total assets of \$944.4 million and a tangible equity capital ratio of approximately 13.4%. The stock trades at approximately 140% of tangible book value.
- Malvern Bancorp, Inc. (NASDAQ: MLVF): Operating nine offices in the markets referred to as Philadelphia's "Main Line", Malvern reached its three-year anniversary of its second step in October 2015. Malvern has total assets of \$1.1 billion and a tangible equity capital ratio of 9.7%. The stock trades at around 163% of tangible book value.
- Based in Warren, Northwest Bancshares operates in numerous markets across Pennsylvania and contiguous states. Northwest completed its second step in December 2009, and is the largest (\$9.5 billion in assets) among Pennsylvania's recently converted institutions. The company has a tangible equity capital ratio around 9.6%; and trades at approximately 210% of tangible book value and approximately 18 times trailing 12-month earnings.
- Standard Financial Corp. (OTCQX: STND): Based near Pittsburgh, Standard completed its standard conversion in October 2010. As of March 31, 2018, Standard had total assets of \$979.5 million and a tangible equity capital ratio of approximately 11.0%. The stock trades at approximately 140% of tangible book value.

Other Recent Conversions: HV Bancorp, Inc. (NASDAQ: HVBC) completed its standard conversion in January 2017, and was oversubscribed in the first category of eligible account holders. The stock price increased approximately 40% in the first week of trading. HV Bancorp stock trades at approximately 105% of tangible book value.

## Pennsylvania Market Demographics

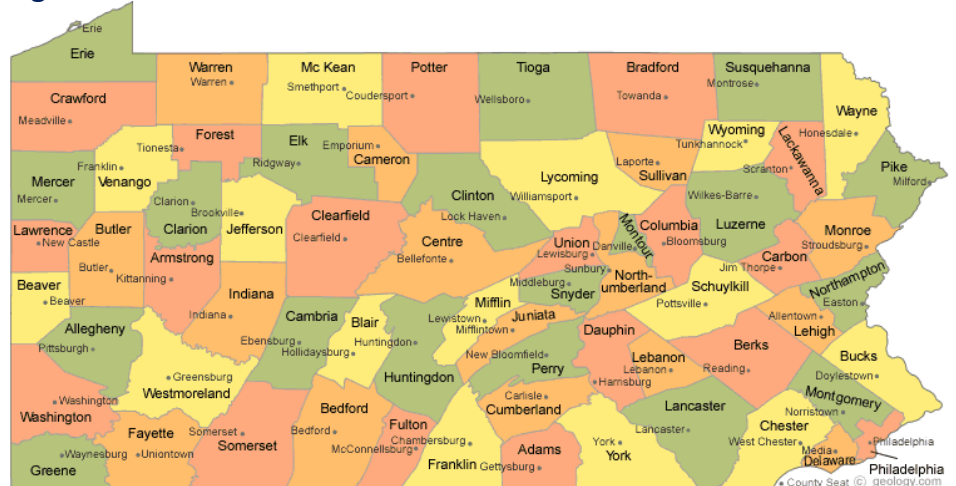
**Figure 7**



Source: S&P Global Market Intelligence

**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 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 May 2018, the unemployment rate was 5.8% in the Philadelphia metropolitan area compared with 4.5% for the state as a whole and 3.7% nationally.

**Figure 8**



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 May 2018, the unemployment rate was 5.8% in the Philadelphia metropolitan area compared with 4.5% for the state as a whole and 3.7% 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 3.2% in Montgomery County and 3.4% in Bucks County according to the Bureau of Labor Statistics.

**Pittsburgh and Western PA Market Area:** Nearly four million people call Western Pennsylvania home, much of which is predominantly slower growth and non-metropolitan/rural in nature. Much of Western Pennsylvania's economy and culture is tied to Pittsburgh, which has enjoyed an economic renaissance since the days of being dependent upon the fate of the steel industry. Today, Pittsburgh's competitive advantage rests with its highly-skilled workforce, technology-driven manufacturing, and world-class research institutions. The housing markets throughout Western Pennsylvania generally do not experience much appreciation during the economic boom years and therefore, are spared from the same degree of losses as other parts of the United States during economic downturns.

Sparked by higher energy prices, economic development and natural gas drilling has picked up in the region following several lean years of falling employment growth amid sharply reduced as oil and gas-related activity. Parts of Western Pennsylvania sits atop the Marcellus Shale Formation, which remains a highly productive formation and is a source of a significant amount of natural gas. The Marcellus Shale gas fields stretch 600 miles along the Appalachian Mountains from New York State to West Virginia and most of Pennsylvania. The fields are located near high-demand markets along the east coast and the proximity to these markets makes it an attractive target for energy development. The number of jobs created has been politicized and is hard to measure although the Pennsylvania Department of Labor and Industry estimated that approximately 200,000 direct and indirect jobs have been created – about 3.5% of total employment in a state with 5.7 million jobs. **Although drilling and the attributes of Marcellus Shale are hotly debated across the state (and political lines), it appears evident that the economic benefits are primarily realized in areas where drilling occurs, rather than throughout the entire state.**

**Central Pennsylvania Market Area:** Central Pennsylvania is a fragmented banking market – there are many smaller community banks, but only a few with assets greater than \$2 billion. Home to about 4.4 million people, the central Pennsylvania market area (defined broadly) stretches though the prime farmlands of Lancaster and Lebanon counties in southeastern Pennsylvania to the mining and oil/gas fields sweeping across the northern and western parts of the state. The region features prime farmland, national forests, and major rivers. We believe that many natural barriers, such as mountains, forests, and rivers have separated communities and tend to limit widespread merger and acquisition activity across the state.

Central Pennsylvania encompasses many counties which are more rural and slower-growing compared with other parts of the state. Several banks' core markets, however, include much of the Marcellus Shale gas fields and would likely see significantly increased economic activity if and when energy commodity prices rebound. The Marcellus Shale gas fields stretch 600 miles along the Appalachian Mountains from New York State to West Virginia. According to the Pennsylvania Department of Labor and Industry, about 90,000 direct and indirect jobs have been created – about 1.5% of total employment in a state with 5.7 million jobs. Although drilling and the attributes of Marcellus Shale are hotly debated across the state (and political lines), it appears evident that the economic benefits are primarily realized in areas where drilling occurs, rather than throughout the entire state.

**Important Disclosure:** Information contained herein is provided for informational purposes only, is not a solicitation to sell or offer to buy, and is obtained from sources believed to be reliable. We do not guarantee its accuracy or completeness. Opinions expressed reflect that of the author and are subject to change without notice. Ambassador, its officers/directors/shareholders/employees and affiliates will not be held liable for use of this information other than for informational purposes. Ambassador, its officers/directors/shareholders/employees/affiliates and family members, may make investments in a company/security mentioned herein. Ambassador may perform/seek to perform investment banking or other services for entities mentioned herein. Prices and availability are subject to change. Additional information on securities mentioned herein is available upon request.

## Appendix A: Pennsylvania Bank & Thrift Highlights

Company Name	Ticker	Market Cap (\$MM)	Total Assets (\$000)	Tang. Common Equity/ Tang. Assets (%)	NPAs*/ Loans & OREO (%)	LTM ROAA (%)	LTM ROAE (%)	Price/ LTM EPS (X)	Price/ Tang. Book Value (%)
1st Summit Bncp Johnstown Inc.	FSMK	123	1,045,050	8.8	0.35	0.98	10.6	12.3	133
ACNB Corp.	ACNB	223	1,611,015	8.4	0.41	0.82	8.5	17.9	166
American Bank Inc.	AMBK	70	600,200	8.7	NA	1.00	11.2	13.5	133
AmeriServ Financial Inc.	ASRV	76	1,151,160	7.4	0.25	0.32	3.9	21.0	90
Apollo Bancorp Inc.	APLO	23	163,771	11.8	NA	1.15	9.1	13.1	122
Beneficial Bancorp Inc	BNCL	1,200	5,788,923	15.0	0.59	0.44	2.5	48.8	148
Bryn Mawr Bank Corp.	BMTC	965	4,300,376	8.0	0.24	0.80	6.7	30.4	296
CB Financial Services Inc.	CBFV	194	965,838	8.8	0.37	0.73	7.1	22.3	174
CCFNB Bancorp Inc.	CCFN	104	713,688	11.5	NA	1.05	8.4	14.0	128
Centric Financial Corp.	CFCX	104	610,599	7.0	NA	0.84	11.2	16.9	180
Citizens & Northern Corp.	CZNC	323	1,258,116	14.0	1.79	1.15	7.6	22.3	185
Citizens Financial Services	CZFS	219	1,382,483	7.8	1.20	1.08	10.6	15.7	208
Clarion County Community Bk	CCYY	16	156,597	9.9	0.99	0.46	4.6	22.7	105
CNB Financial Corp.	CCNE	478	2,908,883	7.1	0.87	0.89	10.1	19.6	234
Codorus Valley Bancorp Inc.	CVLY	268	1,724,938	9.5	0.31	0.76	7.7	21.3	164
Commercial National Financial	CNAF	68	390,253	15.0	0.24	1.72	12.4	9.8	116
Community Bankers' Corporation	CTYP	20	292,604	NA	NA	NA	NA	NA	NA
Community First Bancorp Inc.	CMFP	17	129,186	7.0	NA	0.67	6.5	25.1	183
Customers Bancorp Inc	CUBI	952	10,769,266	6.4	0.28	0.75	8.4	15.6	139
Dimeco Inc.	DIMC	87	656,047	11.4	NA	0.87	7.6	15.5	116
DNB Financial Corp.	DNBF	151	1,100,030	8.1	1.54	0.75	8.0	18.6	172
Embassy Bancorp Inc.	EMYB	128	1,020,781	7.9	0.13	0.79	9.8	16.4	158
Emclair Financial Corp	EMCF	79	755,808	6.5	0.59	0.63	8.1	16.7	165
ENB Financial Corp	ENBP	98	1,030,309	9.5	0.14	0.72	7.4	13.4	101
Enterprise Financial Services	EFSG	10	276,207	NA	NA	NA	NA	NA	NA
ESSA Bancorp Inc.	ESSA	165	1,820,924	9.0	1.17	0.25	2.4	38.6	115
F.N.B. Corp.	FNB	4,498	31,652,353	6.8	0.56	0.85	5.9	18.0	226
Fidelity D & D Bancorp Inc.	FDBC	233	897,417	9.7	0.67	1.08	10.8	25.0	265
First Commonwealth Financial	FCF	1,608	7,320,767	8.9	0.77	0.85	7.0	25.0	248
First Community Finl Corp.	FMFP	75	505,601	8.9	1.32	0.73	8.2	20.9	166
First Keystone Corp.	FKYS	152	1,001,430	9.5	1.05	0.82	7.1	18.5	162
First Priority Financial Corp.	FPBK	79	614,634	7.3	0.20	0.41	4.8	38.6	177
First Resource Bk	FRSB	29	257,817	9.1	1.35	0.71	7.8	16.2	125
Fleetwood Bank Corp.	FLEW	22	260,582	8.7	0.41	0.36	4.0	23.7	96
FNB Bancorp Inc.	FBIP	107	939,406	7.3	2.41	0.55	6.0	NA	NA
FNCB Bancorp Inc.	FNCB	155	1,189,260	7.3	0.60	0.00	0.0	NM	178
Franklin Financial Services	FRAF	151	1,168,542	9.3	0.55	0.23	2.2	57.5	139
Fulton Financial Corp.	FULT	2,988	19,948,941	8.8	0.85	0.90	8.0	16.8	175
GNB Financial Services Inc	GNBF	41	326,242	NA	NA	0.94	8.1	13.5	NA
Hamlin B&TC	HMLN	118	422,459	20.8	0.69	2.00	11.5	13.4	134
Harleysville Financial Corp.	HARL	86	773,975	9.1	1.82	0.77	8.6	14.8	122
Honat Bancorp	HONT	159	630,012	15.1	0.47	1.03	6.8	NA	165
HV Bancorp Inc.	HVBC	32	263,844	11.6	0.75	0.32	2.3	43.7	106
Jonestown Bank and Trust Co.	JNES	61	574,094	8.6	1.07	0.82	9.5	13.2	124
JTNB Bancorp Inc.	JTNB	15	190,187	8.2	0.05	0.40	4.5	NA	90

Continued on next page...

Company Name	Ticker	Market Cap (\$MM)	Total Assets (\$000)	Tang. Common Equity/Tang. Assets (%)	NPAs*/Loans & OREO (%)	LTM ROAA (%)	LTM ROAE (%)	Price/LTM EPS (X)	Price/Tang. Book Value (%)
Juniata Valley Financial Corp.	JUVF	107	594,984	8.9	0.79	0.74	7.4	24.5	205
Kish Bancorp Inc.	KISB	78	819,012	6.6	NA	0.56	7.9	17.1	145
Landmark Bancorp Inc.	LDKB	33	343,982	7.8	2.51	0.17	1.9	66.3	123
Malvern Bancorp Inc	MLVF	172	1,083,316	9.7	0.25	0.59	6.0	28.4	166
Mars Bancorp Inc.	MNBP	30	399,959	8.4	0.03	0.29	3.2	26.5	89
Mauch Chunk Trust Finl Corp	MCHT	45	417,725	8.7	0.21	0.71	7.9	15.1	123
Mercersburg Financial Corp.	MCBG	32	183,950	11.2	0.29	0.50	4.5	35.0	153
Meridian Bank	MRBK	116	883,521	11.0	0.44	0.52	5.1	24.5	119
Mid Penn Bancorp Inc.	MPB	213	1,391,217	8.2	1.30	0.51	6.5	25.4	191
MNB Corporation	MNBC	35	391,361	7.8	0.83	0.69	8.2	13.0	116
Muncy Bank Financial	MYBF	48	429,545	10.0	0.38	0.75	7.1	15.7	112
Neffs Bancorp Inc.	NEFB	59	351,606	17.5	1.29	1.16	6.3	NA	95
New Tripoli Bancorp Inc.	NTBP	64	454,708	11.4	0.90	1.04	9.1	NA	122
Northumberland Bancorp	NUBC	46	514,158	9.4	0.59	0.40	3.8	23.1	95
Northwest Bancshares, Inc.	NWBI	1,828	9,520,979	9.6	0.80	1.08	8.5	17.9	206
Norwood Financial Corp.	NWFL	231	1,127,037	9.2	0.40	0.79	7.6	25.9	227
Orrstown Financial Services	ORRF	220	1,635,906	8.7	1.00	0.63	6.8	22.2	156
Penns Woods Bancorp Inc.	PWOD	205	1,526,745	7.9	0.58	0.72	7.4	20.0	171
Peoples Financial Services	PFIS	382	2,190,388	9.4	0.54	0.93	7.4	19.6	191
Peoples Ltd.	PPLL	41	356,782	8.5	0.83	1.17	13.4	10.2	136
PNC Financial Services Group	PNC	66,904	379,161,000	9.0	0.90	1.48	12.0	13.1	200
Prudential Bancorp Inc.	PBIP	176	944,375	13.4	2.39	0.70	4.8	26.7	141
QNB Corp.	QNBC	162	1,172,168	8.2	0.94	0.73	8.1	19.3	168
Quaint Oak Bancorp Inc.	QNTD	27	251,562	8.6	1.08	0.68	7.2	16.9	121
Republic First Bancorp Inc.	FRBK	485	2,471,464	9.3	1.64	0.41	4.0	51.6	211
Riverview Financial Corp.	RIVE	114	1,171,166	7.0	0.29	-0.17	-1.8	NM	143
S&T Bancorp Inc.	STBA	1,561	7,005,329	9.0	0.42	1.14	9.2	19.2	258
Somerset Trust Holding Company	SOME	109	1,166,204	7.3	1.42	0.65	8.3	14.8	128
SSB Bancorp Inc. (MHC)	SSBP	21	165,821	12.1	2.39	NA	NA	NA	105
Standard AVB Financial Corp.	STND	146	979,473	11.0	0.44	0.61	4.5	24.4	140
Susquehanna Community Finl Inc	SQCF	63	412,415	9.4	0.37	1.28	12.9	12.0	162
TriState Capital Holdings Inc.	TSC	764	4,906,753	7.0	0.14	0.92	10.8	18.6	227
Turbotville National Bancorp	TVNB	23	136,894	16.5	3.39	1.12	6.6	15.1	100
UNB Corp.	UNPA	9	134,918	9.8	0.00	0.14	1.4	45.2	67
Univest Corp. of Pennsylvania	UVSP	834	4,613,959	9.6	0.80	1.04	8.4	17.0	195
Victory Bancorp Inc.	VTYB	14	220,703	NA	NA	NA	NA	NA	NA
William Penn Bncp Inc. (MHC)	WMPN	104	303,919	19.9	0.77	0.49	2.5	69.3	173
Woodlands Fnl Services Co	WDFN	49	407,350	9.5	NA	0.83	8.7	14.6	127
WVS Financial Corp.	WVFC	33	356,441	9.6	0.30	0.55	5.8	15.4	97
York Traditions Bank	YRKB	58	447,953	10.2	0.78	0.90	9.5	13.2	125
	<b>Median</b>			<b>9.0</b>	<b>0.67</b>	<b>0.75</b>	<b>7.4</b>	<b>18.6</b>	<b>144</b>
	<b>Average</b>			<b>9.7</b>	<b>0.81</b>	<b>0.75</b>	<b>7.1</b>	<b>22.7</b>	<b>153</b>

\*Excludes TDRs

Pricing data as of June 18, 2018

Financial data as of or for the three months ending March 31, 2018

Source: S&P Global Market Intelligence