



Notes from the Ambassador Bank Vault

January 14, 2019

Mergers & Acquisitions: A Look at Pennsylvania

“Everyone has a plan until they get punched in the mouth.” Mike Tyson. Bank consolidation in Pennsylvania should grind forward in 2019, provided potential sellers are willing to accept reduced acquisition premiums. We opine that deal valuations will be lowered due to both the overall decline in bank stock prices and more caution among potential buyers resulting from the adverse market reaction to several recent East Coast merger announcements. Although moderate acquisition premiums may not create flashy headlines, more rationally priced stock deals should produce superior long-term returns due to greater potential price appreciation.

Banks planning to sell within the next two years or so may accelerate their timetable due to growing economic concerns and a renewed respect for market volatility. As has been the case for quite some time, many banks lack the scale to successfully meet industry-wide revenue, regulatory, and technological challenges. Along with succession issues, all of these hurdles can be overcome via mergers. Buyers are primarily motivated to efficiently obtain core deposits and gain economies of scale (along with synergies). Overall credit quality appears to remain good and should not impede consolidation activity in 2019.

Pennsylvania’s “sweet spot” regarding mergers and acquisitions rests among banks with total assets ranging from approximately \$700 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—is supported by their “scarcity values” even though we suspect overall deal premiums will be less in 2019 compared with 2018. 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 the SIFI designation was raised 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.

There were eight deals with Pennsylvania sellers in 2018, compared with seven deal announcements in 2017, and six announcements in 2016. Nationwide, there were 259 bank and thrift deal announcements in 2018, compared with 256 deals in 2017. On a national basis, the median price-to-tangible book values were 169.8%, 164.2% and 136.5% for announced deals in 2018, 2017, and 2016, respectively. The price-to-trailing 12-month earnings were 24.3 times for 2018, 23.0 times for 2017, and 21.8 times in 2016.

Rick Weiss

Matthew Resch

Rob Pachence

Eric Tesche

Ryan Walker

610.724.7133

610.351.1633

610.351.1633

610.351.1633

610.351.1633

rweiss@ambfg.com

mresch@ambfg.com

rpachence@ambfg.com

etesche@ambfg.com

rwalker@ambfg.com

Highlights

- There are 137 depository institutions, including 83 which are publicly-traded, headquartered 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 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.
- There were eight 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 eight 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 nearly 25 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). (In June 2018, Northwest announced the acquisition of Donegal Financial Services Corporation. Ambassador Financial Group, Inc. served as financial advisor to Northwest.)
- The acquisition agreement (August 8, 2018) between Wilmington, DE-based, WSFS Financial Corporation (NASDAQ: WSFS) and Philadelphia-based, Beneficial Bancorp (NASDAQ: BNCL) was the largest deal announcement with a Pennsylvania-seller in 2018.
- 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 Bryn Mawr Bank Corp. (NASDAQ: BMTC), FNB Corporation, First Commonwealth Financial Corporation (NYSE: FCF), 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), and WesBanco, Inc. (NASDAQ: WSBC). WSFS Financial Corporation (NASDAQ: WSFS) announced the acquisition of Philadelphia-based Beneficial Bancorp (NASDAQ: BNCL) in August 2018 and is probably not a likely acquirer until that deal is closed and at least partially integrated.
- There were 259 bank and thrift deals announced nationally in 2018, compared with 256 and 241 deals announced 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.

- ❏ The desire for core deposits should be a major driver for consolidation in 2019. 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.
- ❏ 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.
- ❏ 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.
- ❏ 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 2015)

Figure 1

Buyer/Target Name	Status	Completion Date**	Deal Value (\$MM)	Price/Tangible Book (%)	Price/LTM Earnings (X)	Core Deposit Premium (%)
Citizens & Northern Corporation/Monument Bancorp, Inc.	Pending	9/28/2018	42.7	164	16.7	12.3
WSFS Financial Corporation/Beneficial Bancorp, Inc.	Pending	8/8/2018	1,507.4	177	53.0	16.6
Mutual Holding Co. of Western PA/Union Building and Loan SB	Pending	7/19/2018	NA	NA	NA	NA
Northwest Bancshares, Inc./Donegal Financial Services Corp.*	Pending	6/12/2018	86.1	174	20.3	7.4
LinkBancorp, Inc/Stonebridge Bank	Completion	10/5/2018	1.1	29	NM	NM
Emclair Financial Corp/Community First Bancorp, Inc.	Completion	10/1/2018	17.7	195	26.9	11.1
Orrstown Financial Services, Inc./Mercersburg Financial Corporation*	Completion	10/1/2018	32.2	156	35.7	8.5
Mid Penn Bancorp, Inc./First Priority Financial Corp.	Completion	7/31/2018	90.7	205	32.6	11.2
Juniata Valley Financial Corp./Liverpool Community Bank	Completion	4/30/2018	7.6	130	23.2	9.7
Mid Penn Bancorp, Inc./Scottdale Bank & Trust Company*	Completion	1/8/2018	59.1	130	NM	6.4
Bryn Mawr Bank Corporation/Royal Bancshares of Pennsylvania, Inc.	Completion	12/15/2017	125.9	244	13.5	14.5
Penn Community Mutual Holdings Inc./Cheltenham Hills Savings Bank	Completion	10/1/2017	NA	NA	NA	NA
Riverview Financial Corporation/CBT Financial Corporation*	Completion	10/1/2017	49.2	127	15.8	2.8
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
NexTier Incorporated/Manor Bank*	Completion	4/30/2017	2.3	87	NM	-1.0
Standard Financial Corp./Allegheny Valley Bancorp, Inc.	Completion	4/7/2017	53.6	125	15.0	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	38.1	102	NM	NA
DNB Financial Corporation/East River Bank*	Completion	10/1/2016	49.0	158	21.7	11.3
WSFS Financial Corporation/Penn Liberty Financial Corp.	Completion	8/12/2016	103.1	NA	32.3	10.9
Univest Corporation of Pennsylvania/Fox Chase Bancorp, Inc.	Completion	7/1/2016	247.7	141	23.2	11.0
Emclair Financial Corp./United-American Savings Bank	Completion	4/30/2016	13.2	167	19.7	13.2
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	1,816.4	220	17.7	15.5
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
Riverview Financial Corp./Citizens National Bank of Meyersdale*	Completion	12/31/2015	7.8	110	NM	1.4
Citizens Financial Services, Inc./First National Bank of Fredericksburg	Completion	12/11/2015	22.9	145	NM	3.5
ESSA Bancorp, Inc./Eagle National Bancorp, Inc.*	Completion	12/4/2015	25.3	112	NM	2.1
Juniata Valley Financial Corp./FNBPA Bancorp, Inc.*	Completion	11/30/2015	13.3	129	18.2	4.2
WSFS Financial Corporation/Alliance Bancorp, Inc. of Pennsylvania	Completion	10/9/2015	94.1	142	35.8	9.5
Andover Bancorp, Inc./ Community Nat'l Bank of Northwestern PA	Completion	10/1/2015	19.0	123	29.8	7.3
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	2,507.0	173	16.6	9.0
GNB Financial Services, Inc./FNBM Financial Corporation*	Completion	3/27/2015	13.4	116	NM	3.2
S&T Bancorp, Inc./Integrity Bancshares, Inc.	Completion	3/4/2015	163.0	272	17.2	15.9
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	357.6	217	19.8	18.8
Bryn Mawr Bank Corporation/Continental Bank Holdings, Inc.	Completion	1/1/2015	107.3	179	41.9	11.9
Univest Corporation of Pennsylvania/Valley Green Bank	Completion	1/1/2015	77.7	234	15.3	25.3
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*Ambassador Deals; **Announcement date is listed for pending deals
Source: S&P Global Market Intelligence

Valuation Summary

Figure 2

As we go to press, bank stock prices have underperformed the S&P 500 Index and the Dow Jones Index since January 1, 2018, which are both down 2.9%. Over the same time span, the S&P Bank Index is down 15.4% and the KBW Nasdaq Bank Index is off 12.9%.

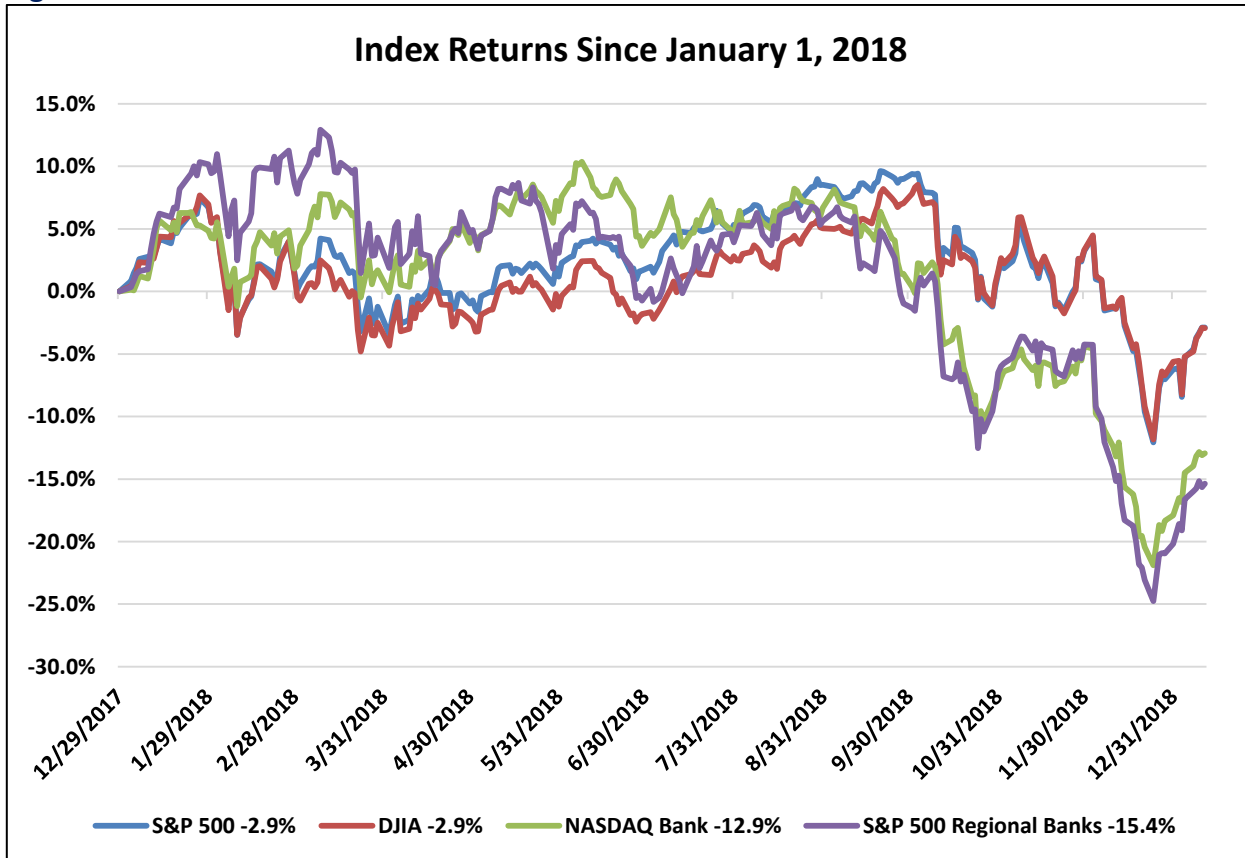
Banks generally reported good September 2018 quarter results and generally met or beat most earnings expectations. Our sense is that the sharp fall in bank stocks is only partially due to fundamentals – mainly the flat yield curve and expectations for slower earnings growth. By and large, credit quality remains good across the banking industry. We continue to believe that an outsized portion of the trading volume reflects cash flows being directed by passive investment funds rather than active trading among traditional bank investors.

	Median LTM P/E (x)	Median Price/TBV (%)
Pennsylvania banks and thrifts	15.5	142
Mid-Atlantic banks and thrifts	15.5	138
All U.S. banks and thrifts	14.8	145

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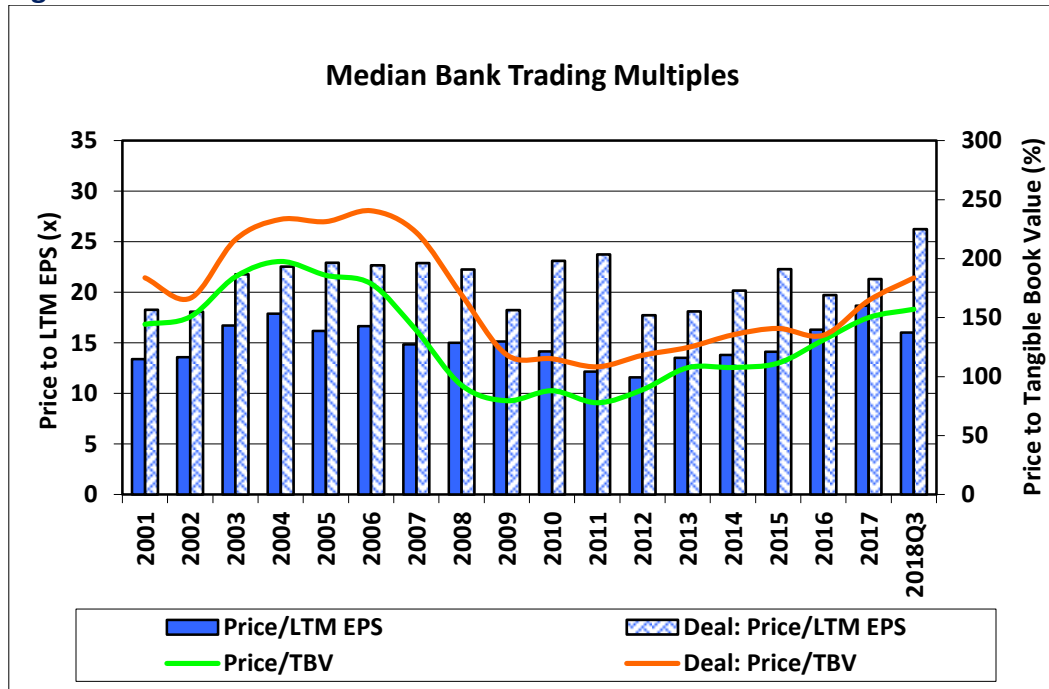
Source: S&P Global Market Intelligence. Pricing data as of January 11, 2019. Includes banks with assets between \$500 million and \$50 billion.

Figure 3



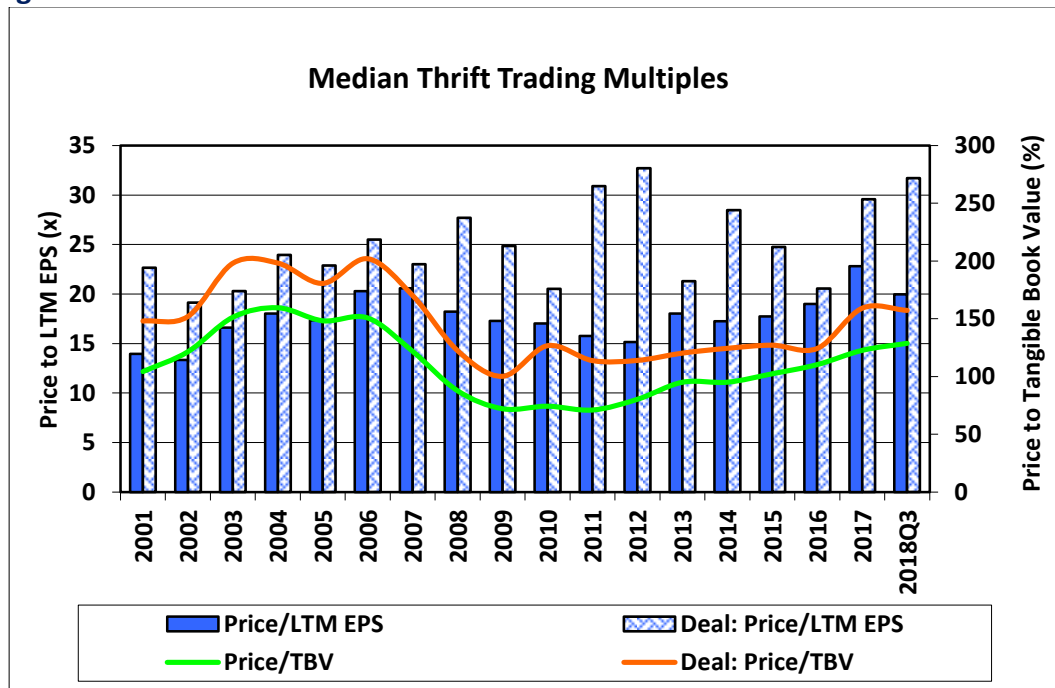
Source: S&P Global Market Intelligence. Pricing data as of January 11, 2019 excluding dividends.

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




We opine that consolidation activity in Pennsylvania will pick up in 2019, but not until markets adjust to reflect the generally lower stock prices of potential acquirers. We also believe potential sellers should temper their pricing expectations due to both market conditions and the increased earning challenges, including the flat yield curve. Although moderate acquisition premiums may not create flashy headlines, more rationally priced stock deals should produce superior long-term returns due to greater potential price appreciation. We also opine that buyers are not as pressured to implement aggressive cost saving maneuvers when mergers are better priced. Because banks are sold; and not bought, we consider it more likely that once committed sellers lower their pricing expectations, more deals will occur. The root cause of the merger pricing disparity is because sellers focus on market premiums and buyers look at potential earnings, 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 2019. (Among the smaller banks, succession issues will continue to drive deals.) Non-core funding will be obtainable, but at a higher cost.


Asset quality issues— which can derail merger activity - continued to be strong through the September 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, Pennsylvania institutions are challenged to better develop customer relationships, achieve a higher earnings growth rate, and gain market share.


We believe the yield curve will remain flattish. 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 three quarters 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.**


Examples of recent deals with Pennsylvania sellers are shown below.

-  Wellsboro, PA-based, Citizens & Northern Corporation (NASDAQ: CZNC) agreed to acquire Doylestown-based Monument Bancorp on September 28, 2018. The cash and stock deal was valued at approximately \$43 million, which equated to 164% of tangible book value and 16.7 times trailing 12-month earnings. The core deposit premium was 7.9%. Citizens and Northern will enter Bucks County with two branches.
-  On August 7, 2018, WSFS Financial agreed to acquire Beneficial Bancorp in a stock and cash deal valued at approximately \$1.5 billion. The transaction was priced at approximately 172% of tangible book value, 53 times trailing 12-month earnings, and the core deposit premium was 16.6%. The acquisition expands WSFS's presence in the Greater Philadelphia market, including parts of southern New Jersey. The WSFS stock price declined approximately 8.8% from its closing price one day prior to the merger announcement to two days after the announcement.
-  Orrstown Financial Services, Inc. (NASDAQ: ORRF) completed its acquisition of Mercersburg Financial Corp. on October 1, 2018. At completion, the stock and cash deal was valued at approximately \$30 million, which equated to approximately 140% of both book and tangible book value and 31.9 times trailing 12-month earnings. The deal had a 62% market premium based on the closing price of Mercersburg on May 30, 2018. Ambassador Financial Group served as financial advisor to Mercersburg. (On October 23, 2018, Orrstown announced the acquisition of Towson, MD-based, Hamilton Bancorp (NASDAQ: HBK) through a cash and stock deal valued at approximately \$58 million.)

-  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.

-  On July 31, 2018, Millersburg-based, Mid Penn Bancorp, Inc. (NASDAQ: MPB) acquired Malvern-based, First Priority Financial Corp. The deal (aggregate value of approximately \$90 million) expanded Mid-Penn’s presence in faster-growing markets of Eastern Pennsylvania. The acquisition was priced at about 205% 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 became 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. As aforementioned, Beneficial agreed to be acquired by WSFS Financial in August 2018. As of September 30, 2018, Beneficial had total assets of \$5.9 billion and a tangible capital ratio of 15.3%.

-  Headquartered in the heart of South Philly, Prudential Bancorp, Inc. (NASDAQ: PBIP) completed its second step in October 2013. As of September 3, 2018, Prudential had total assets of \$1.1 billion and a tangible equity capital ratio of approximately 11.3%. The stock trades at approximately 131% of tangible book value.

-  Malvern Bancorp, Inc. (NASDAQ: MLVF): Operating 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 \$1.0 billion and a tangible equity capital ratio of 10.7%. The stock trades at around 122% of tangible book value.

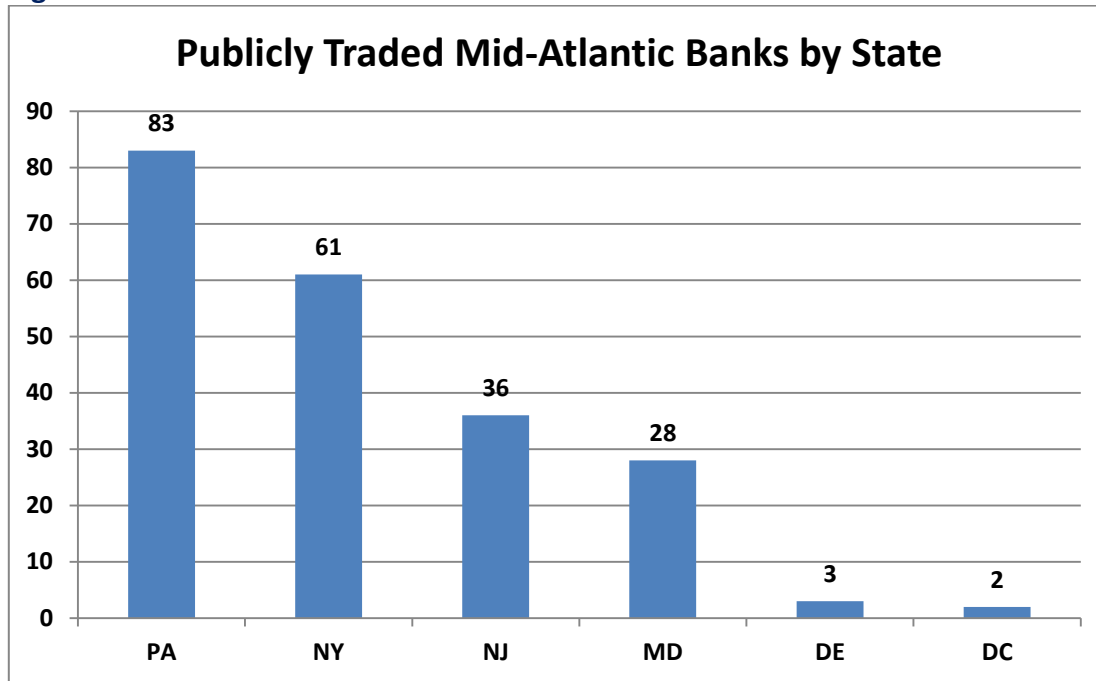
-  Based in Warren, Northwest Bancshares operates in numerous markets across Pennsylvania and contiguous states. Northwest completed its second step in 2009, and is the largest (\$9.5 billion in assets) among Pennsylvania’s recently converted institutions. The company has a tangible equity capital ratio around 9.9%; and trades at approximately 198% of tangible book value and 18 times trailing 12-month earnings.

 Standard Financial Corp. (NASDAQ: STND): Based near Pittsburgh, Standard completed its standard conversion in October 2010. As of September 30, 2018, Standard had total assets of \$982.7 million and a tangible equity capital ratio of approximately 11.2%. The stock trades at approximately 137% of tangible book value.

Other Recent Conversions: HV Bancorp, Inc. (NASDAQ: HVBC) completed its standard conversion in January 2017. HV Bancorp stock trades at approximately 105% of tangible book value.

Pennsylvania Market Demographics

Figure 6

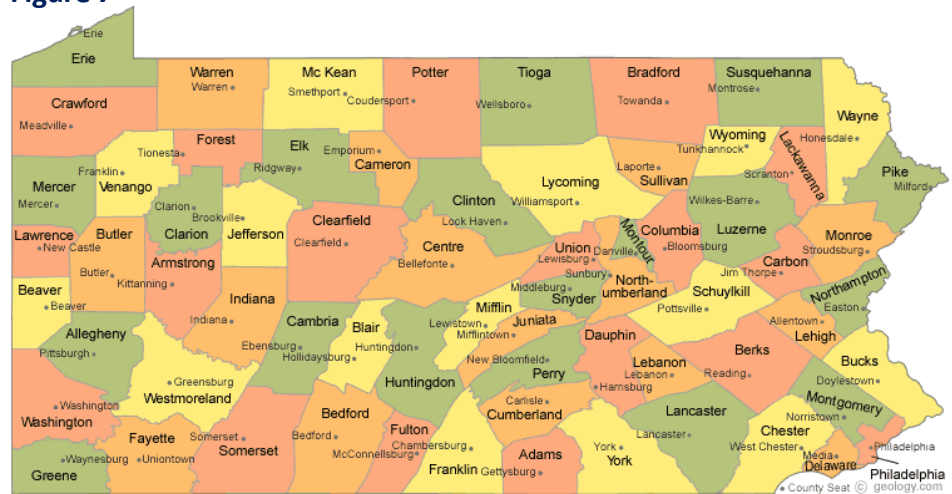


Source: S&P Global Market Intelligence

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 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

Figure 7



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 November 2018, the

unemployment rate was 4.6% in the Philadelphia metropolitan area compared with 4.2% for the state as a whole and 3.9% 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 November 2018 were 3.1% in Montgomery County and 3.3% 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 somewhat higher energy prices, economic development and natural gas drilling has moderately 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. 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.

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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 Bancorp of Johnstown, ACNB Corporation	FSMK	123	1,048,110	8.6	0.35	0.98	10.6	11.8	136
American Bank Incorporated	ACNB	260	1,647,799	8.8	0.32	0.69	7.1	13.7	183
AmeriServ Financial, Inc.	AMBK	67	637,499	8.5	NA	0.98	10.9	11.7	124
Apollo Bancorp, Inc.	ASRV	73	1,168,806	7.4	0.12	0.28	3.4	14.6	85
Beneficial Bancorp, Inc.	APLO	23	163,710	12.0	NA	1.18	9.3	11.7	119
Bryn Mawr Bank Corporation	BNCL	1,084	5,867,623	15.3	0.40	0.41	2.3	36.6	129
CB Financial Services, Inc.	BMTC	739	4,388,442	8.2	0.28	0.67	5.8	18.8	215
CCFNB Bancorp, Inc.	CBFV	135	1,253,526	7.8	0.55	0.78	7.5	19.6	142
Centric Financial Corporation	CCFN	106	727,192	11.6	NA	1.04	8.3	13.6	127
Citizens & Northern Corporation	CFCX	82	716,961	9.3	NA	0.72	9.4	10.7	122
Citizens Financial Services, Inc.	CZNC	295	1,285,439	14.0	1.65	1.08	7.1	16.1	166
Clarion County Community Bank	CZFS	199	1,407,880	8.0	1.43	1.03	10.0	12.4	181
CNB Financial Corporation	CCYY	15	159,522	10.0	1.12	0.39	3.8	16.0	94
Codorus Valley Bancorp, Inc.	CCNE	371	3,129,313	7.0	0.79	0.89	10.0	13.2	173
Commercial National Financial	CVLY	210	1,800,771	9.5	0.98	0.72	7.4	12.3	122
Community Bankers' Corporation	CNAF	62	421,826	13.6	0.20	1.72	11.8	9.2	108
Customers Bancorp, Inc.	CTYP	19	305,694	NA	NA	NA	NA	NA	NA
Dimeco, Inc.	CUBI	628	10,617,104	6.8	0.29	0.77	8.7	10.2	84
DNB Financial Corporation	DIMC	100	673,488	11.4	2.00	0.83	7.3	16.2	131
Embassy Bancorp, Inc.	DNBF	133	1,128,115	8.3	1.26	0.74	7.9	15.6	144
Emclair Financial Corp	EMYB	112	1,076,797	7.8	0.09	0.75	9.4	13.1	133
ENB Financial Corp	EMCF	83	772,804	6.4	0.93	0.59	7.5	15.7	144
Enterprise Financial Services	ENBP	98	1,062,195	9.3	0.15	0.63	6.5	12.1	99
ESSA Bancorp, Inc.	EFSG	8	285,141	NA	3.45	0.55	6.1	NA	NA
F.N.B. Corporation	ESSA	171	1,833,790	9.0	0.89	0.36	3.6	26.1	112
Fidelity D & D Bancorp, Inc.	FNB	3,515	32,617,595	6.9	0.53	0.68	4.9	12.3	168
First Commonwealth Financial	FDBC	229	949,854	9.5	0.62	1.03	10.3	22.1	255
First Community Financial	FCF	1,292	7,686,345	9.3	0.63	0.77	6.5	15.1	189
First Keystone Corporation	FMFP	64	508,229	NA	NA	0.73	8.2	NA	143
First Resource Bank	FKYS	144	1,013,780	9.4	0.87	0.86	7.5	15.5	153
Fleetwood Bank Corporation	FRSB	25	271,012	9.1	1.03	0.69	8.1	12.6	100
FNB Bancorp, Inc.	FLEW	22	253,691	9.1	0.33	0.30	3.4	NA	NA
FNCB Bancorp, Inc.	FBIP	99	943,152	7.2	1.65	0.50	6.0	NA	NA
Franklin Financial Services	FNCB	145	1,251,122	6.9	0.81	0.01	0.2	NM	168
Fulton Financial Corporation	FRAF	146	1,194,624	8.9	0.85	0.19	1.8	NM	138
GNB Financial Services, Inc.	FULT	2,847	20,364,810	8.8	0.73	0.88	7.8	15.5	163
Hamlin Bank and Trust Company	GNBF	41	327,528	NA	NA	0.94	8.1	NA	NA
Harleysville Financial Corporation	HMLN	106	409,315	21.5	0.76	2.01	10.5	11.6	121
Honat Bancorp, Inc.	HARL	87	768,865	9.3	1.71	0.92	10.1	12.6	121
HV Bancorp, Inc.	HONT	158	645,991	15.0	0.54	0.99	6.5	NA	161
Jonestown Bank and Trust Co.	HVBC	32	302,310	10.3	0.62	0.31	2.5	38.5	110
JTNB Bancorp, Inc.	JNES	58	574,405	9.0	0.91	0.83	9.5	11.2	111
Juniata Valley Financial Corp.	JTNB	16	196,623	7.8	0.44	0.39	4.4	NA	100
Kish Bancorp, Inc.	JUVF	102	620,689	9.1	0.65	0.76	7.6	20.4	183
Landmark Bancorp, Inc.	KISB	81	842,812	6.6	NA	0.54	7.5	16.0	149
Malvern Bancorp, Inc.	LDKB	29	330,684	8.2	2.24	0.21	2.4	NM	108
Mars Bancorp, Inc.	MLVF	161	1,033,951	10.7	0.29	0.69	6.9	18.3	123
Mauch Chunk Trust Financial Corp.	MNBP	31	393,906	8.6	0.03	0.27	3.0	22.9	91
	MCHT	49	446,705	7.9	0.12	0.67	7.5	17.0	138

Meridian Corporation	MRBK	110	959,829	10.7	0.35	0.39	4.0	19.0	108
Mid Penn Bancorp, Inc.	MPB	204	2,044,280	7.5	0.73	0.64	9.5	23.7	138
Mifflinburg Bancorp, Inc.	MIFF	44	452,092	9.7	NA	0.93	9.4	4.9	50
MNB Corporation	MNBC	37	399,622	7.7	0.79	0.62	7.8	11.7	120
Muncy Bank Financial, Inc.	MYBF	48	462,053	9.6	0.36	0.69	6.4	13.8	109
Neffs Bancorp, Inc.	NEFB	59	364,824	17.4	0.90	1.13	6.3	NA	92
New Tripoli Bancorp, Inc.	NTBP	60	475,323	10.8	0.80	1.05	8.7	NA	117
Northumberland Bancorp	NUBC	46	531,936	9.2	0.60	0.40	4.0	20.5	95
Northwest Bancshares, Inc.	NWBI	1,817	9,575,331	9.9	0.96	0.99	7.9	17.9	199
Norwood Financial Corp.	NWFL	198	1,156,748	9.2	0.28	0.73	7.0	19.0	189
Orrstown Financial Services, Inc.	ORRF	184	1,720,755	8.4	0.53	0.54	5.7	13.9	113
Penns Woods Bancorp, Inc.	PWOD	182	1,670,348	7.4	0.65	0.69	6.9	16.3	149
Peoples Financial Services Corp.	PFIS	326	2,257,843	9.4	0.45	0.90	7.0	15.3	157
Peoples Limited	PPLL	41	377,318	8.2	0.72	0.90	10.4	9.2	NA
PNC Financial Services Group, Inc.	PNC	55,394	380,080,000	9.1	0.81	1.45	11.6	9.9	165
Prudential Bancorp, Inc.	PBIP	159	1,081,170	11.3	2.37	0.72	5.5	22.9	132
QNB Corp.	QNBC	130	1,184,389	8.3	1.23	0.74	8.2	13.6	131
Quaint Oak Bancorp, Inc.	QNTD	23	258,955	8.8	0.90	0.65	6.8	14.5	105
Republic First Bancorp, Inc.	FRBK	360	2,657,206	8.5	1.43	0.43	4.0	38.3	159
Riverview Financial Corporation	RIVE	105	1,156,733	7.4	0.38	-0.65	-7.0	31.2	126
S&T Bancorp, Inc.	STBA	1,394	7,105,363	9.2	0.41	1.03	8.4	15.9	221
Somerset Trust Holding Company	SOME	100	1,210,941	6.7	1.31	0.60	7.7	12.9	122
SSB Bancorp, Inc. (MHC)	SSBP	19	183,770	11.1	2.24	0.38	4.9	NA	96
Standard AVB Financial Corp.	STND	141	982,656	11.2	0.41	0.51	3.7	17.0	137
Susquehanna Community	SQCF	55	414,122	NA	NA	1.25	12.3	10.5	133
TriState Capital Holdings, Inc.	TSC	594	5,573,288	6.6	0.12	0.89	10.3	11.9	165
Turbotville National Bancorp, Inc.	TVNB	23	141,673	16.5	2.91	1.03	6.2	14.5	97
UNB Corporation	UNPA	9	142,121	9.3	0.00	0.13	1.3	42.2	66
Univest Financial Corporation	UVSP	660	4,801,998	9.4	0.75	1.01	8.4	15.3	152
Victory Bancorp, Inc.	VTYB	14	242,110	7.0	NA	0.65	9.0	NA	80
William Penn Bancorp, Inc. (MHC)	WMPN	132	406,521	16.9	0.40	0.48	2.4	NM	195
Woodlands Financial Services	WDFN	45	407,096	9.8	NA	0.79	8.4	9.5	111
WVS Financial Corp.	WVFC	27	349,939	9.9	0.27	0.60	6.3	11.4	84
York Traditions Bank	YRKB	51	465,478	10.4	0.62	0.81	9.0	11.6	104
Median				9.1	0.65	0.72	7.4	14.6	129
Average				9.6	0.82	0.72	6.8	16.4	134

*Excludes TDRs

Pricing data as of January 14, 2019

Financial data as of or for the three months ending September 30, 2018

Source: S&P Global Market Intelligence