

GOVERNANCE GUIDELINES FOR THE BOARD OF DIRECTORS ROYAL BANK AMERICA/ROYAL BANCSHARES OF PA

These Governance Guidelines have been adopted by the Board of Directors (the “Board”) of Royal Bank America/Royal Bancshares of Pennsylvania (the “Company”), acting on the recommendation of its Senior Management on Directors and Governance, to assist the Board and its committees in the exercise of their responsibilities. These principles and policies are in addition to and are not intended to change or interpret any Federal or State law or regulation, including the General Corporation Law of The Commonwealth of Pennsylvania, or the Certificate of Incorporation or By-laws of the Company.

PURPOSE

The Board’s purpose is to build long-term value for the Company and to ensure the continuity and vitality of the Company’s businesses by setting policy for the Company, selecting the Chief Executive Officer, monitoring the performance of both the Company and the CEO, and providing management with appropriate advice and feedback. Management is responsible for and the Board is committed to ensuring that the Company operates in a legal and ethically responsible manner.

OPERATION OF THE BOARD

Director Responsibilities

The basic responsibility of the Directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its shareholders. In discharging that obligation, Directors shall be entitled to rely on the honesty and integrity of the Company’s senior management and its outside advisors and auditors. In furtherance of its responsibilities, the Board of Directors shall:

- Review, evaluate and approve long-range plans for the Company.
- Review, evaluate and approve the Company’s budget and forecasts.
- Review, evaluate and approve major resource allocations and capital investments.
- Review and evaluate the financial and operating results of the Company.
- Review, evaluate and approve the overall corporate organizational structure, the assignment of senior management responsibilities and plans for senior management development and succession.
- Adopt, implement and monitor compliance with the Company’s Code of Ethics.

Board and Committee Meetings

Regular Board meetings shall be held approximately twelve times per year, and special meetings shall be called as necessary. A schedule of dates and locations of the regular meetings shall be

provided to the Directors well in advance. Directors are expected to attend Board meetings and meetings of the committees on which they serve. Directors shall spend the time necessary and meet as frequently as necessary to properly discharge their responsibilities.

The independent Directors shall meet in executive session, at least twice per year, as established by the Board of Directors with the concurrence of the Chairman. The Director who presides at these meetings shall be chosen by the independent Directors.

The presiding Director will take notes at each meeting and coordinate follow-up and keep the Chairman advised of the substance of the meetings.

Agenda Items for Board and Committee Meetings

The Chief Executive Officer shall establish the agenda for each Board meeting. Each Director is free to suggest the inclusion of items on the agenda. Each Director is free to raise at any Board meeting subjects that are not on the agenda for that meeting. Directors having items to suggest for inclusion on the agenda for future Board meetings shall advise the Chief Executive Officer or Chief Operating Officer in advance of such meetings.

The Chairperson of each committee, in consultation with the committee members and management, shall determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. The Chairperson of each committee, in consultation with the appropriate members of the committee and management shall develop the committee's agenda.

Director Compensation

Directors shall receive reasonable compensation for their services as such.

The form and amount of Director compensation shall be determined by the Compensation Committee, subject to the approval of the independent Directors in executive session, in accordance with the policies and principles set forth in its charter and approved by the Board. The Compensation Committee shall consider that Directors' independence may be jeopardized if Director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a Director is affiliated, or if the Company enters into consulting contracts with (or provides other indirect forms of compensation to) a Director or an organization with which the Director is affiliated.

Stock Ownership Requirement

The Company's non-employee Directors, the Company's CEO and the Company's senior management shall beneficially own shares of common stock having a value as it shall be determined by the Board from time to time.

Director Orientation and Education

Management shall provide new Directors with an initial orientation in order to familiarize them with their responsibilities as Directors under law and the NASDAQ Listing Standards, with the Company and its strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Ethics, its senior management, and its internal and independent auditors.

In order to facilitate the Directors' fulfillment of their responsibilities regarding continuing education and to enhance each Director's knowledge of the Company, the Company's business operations and the latest developments in corporate governance, it is appropriate for management to provide Directors with the following:

Educational programs supplemental to the initial orientation to explain the Company's business operations, including its technology, products and market position.

- Access to, or notice of, continuing educational programs that are designed to keep Directors abreast of the latest developments in corporate governance matters and critical issues relating to the operation of public company boards.
- Material that contains information pertaining to (i) the Company's industry and (ii) comparisons of the Company with its major competitors.
- A legal review for the Board, at least semi-annually, of (i) the status of major litigation, (ii) compliance with significant regulatory requirements affecting the Company and (iii) corporate governance matters.

Code of Ethics

The Company will at all times maintain a Code of Ethics for its Directors, senior management and employees.

CEO Evaluation and Management Succession

The Compensation Committee shall conduct an annual review of the Chief Executive Officer's performance, as set forth in its charter. The Board of Directors shall review the Compensation Committee's report in order to ensure that the Chief Executive Officer is providing the best leadership for the Company in the long and short-term.

The Chief Executive Officer shall at all times make available his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals.

Director Access to Officers and Employees

Directors have full and free access to officers and employees of the Company. Any meetings or contacts that a Director wishes to initiate may be arranged through the CEO, COO or the Secretary or directly by the Director. The Directors shall use their judgment to ensure that any

such contact is not disruptive to the business operations of the Company and shall copy the CEO on any written communications between a Director and an officer or employee of the Company.

Independent Advisors

The Board and each committee have the power to engage experts or advisors, including independent legal counsel, deemed appropriate by the Board or the committee, without obtaining the approval of any officer of the Company. The Company shall provide for appropriate funding, as determined by the Board and committee, for payment of compensation to any such counsel, experts or advisors retained by the Board or a committee.

BOARD STRUCTURE

Size of the Board

The By-laws of the Company provide that the Board of Directors consist of not less than 5 nor more than 25 persons and that the Directors are classified with respect to the time they hold office by dividing them in 3 classes, as nearly equal in number as possible.

Selection of Directors

The Nominating and Governance Committee is responsible for interviewing prospective candidates to the Board and for filling vacancies on the Board that may occur between annual meetings of shareholders.

The Board's standards for determining the independence of a Director are set forth below. The Board of Directors shall review such standards at least annually and recommend any appropriate changes.

Resignation from the Board

Any Director may resign at any time by giving notice in writing or by electronic transmission to the Chairman of the Board, the President or the Secretary of the Company. Such resignation shall take effect upon receipt thereof or at any later time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Term Limits

The Board has established a retirement age of 75 years in order to keep the Board refreshed.

COMMITTEES OF THE BOARD

A substantial portion of the analysis and work of the Board is done by standing Board committees. The Board has established the following standing committees:

Audit

The Audit Committee monitors the integrity of the financial statements of the Company and the qualifications, independence and performance of the independent auditors. Additionally, the Committee has oversight responsibility for the performance of the Company's internal audit function in accordance with the Audit Committee charter.

Compensation

The Compensation Committee discharges the Board's responsibilities relating to total compensation of the Company's Chief Executive Officer and other Senior Executives in a manner consistent with and in support of the business objectives of the Company, competitive practice and all applicable rules and regulations in accordance with the Compensation Committee charter.

Nominating and Governance

The Nominating and Governance Committee (the "Committee") is responsible for (1) to assist the Board, on an annual basis, by identifying individuals qualified to become Board members, and to recommend to the Board the Director nominees for the next annual meeting of shareholders; (2) to assist the Board in the event of any vacancy on the Board by identifying individuals qualified to become Board members, and to recommend to the Board qualified individuals to fill any such vacancy; and (3) to recommend to the Board, on an annual basis, Director nominees for each Board committee and other responsibilities as outlined in the Nominating and Governance Committee Charter.

Salary Committee

The Salary Committee is responsible for reviewing compensation (any and all salaries, bonus and other benefits of every kind or nature whatsoever, both current and deferred, whether paid directly or indirectly, to all staff other than tier 1 executives) in accordance with the Salary Committee charter.. The Salary Committee will consist of two inside directors (the Chief Executive Officer and the President) and the head of Human Resources (in consultation with the Chief Financial Officer with regard to financial projects and in consultation with the senior risk officer with regard to EESA compliance).. The Director of Human Resources will, at least annually, provide competitive compensation information to guide the Committee in its annual reviews. The Committee will also convene as needed to review any other compensation issues or adjustments for staff referenced above as required.

All committee members shall be appointed by the Board of Directors with recommendation of management and consideration of the desires of individual Directors. It is the sense of the Board that consideration should be given to rotating committee members periodically, but the Board does not feel that rotation should be mandated as a policy.

Each committee shall have its own charter. The charters shall set forth the purposes, goals and responsibilities of the committees as well as qualifications for committee membership,

procedures for committee member appointment and removal, committee structure and operations and committee reporting to the Board.

The Board shall have at all times an Audit Committee, Compensation Committee, Nominating and Governance Committee and Salary Committee. All of the members of the Audit and Compensation Committees shall be independent Directors with the exception of the Chairman of the Board who shall act in a consulting capacity for the Compensation Committee under the criteria established by the NASDAQ. In addition, the members of the Audit Committee shall meet the independence requirements of the Securities and Exchange Commission and the experience requirements of the NASDAQ.

OTHER BOARD PRACTICES

Review of Roles and Responsibilities of Directors

The Chairman of the Board shall review with Directors on a periodic basis the performance of each Director's duties as well as the role and responsibilities of Directors.

Board Interaction with Institutional Investors, Analysts, Media, Customers and Members of the Public

Except where directed by the Chief Executive Officer, Chief Financial Officer or the Chief Operating Officer of the Company, communications on behalf of the Company with the media, securities analysts, stockbrokers and investors must be made only by specifically designated representatives of the Company. If a Director receives any inquiry relating to the Company from the media, securities analysts, brokers or investors, including informal social contacts, he or she should decline to comment and ask them to call the Company's Chief Operating Officer, Chief Financial Officer, Investor Relations Officer or the Marketing Director/Public Relations Department.

Limitation of Liability

To the extent permitted by the General Corporation Law, a Director shall not be liable to the Company or its shareholders. The Commonwealth of Pennsylvania law currently permits eliminating liability for monetary damages for breach of a Director's fiduciary duty. The law does not permit limiting liability for breach of a Director's duty of loyalty to the Company or its shareholders or for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law.

INDEPENDENCE STANDARDS

The Sarbanes-Oxley Act requires that each member of a publicly traded Board's Audit Committee must be "independent". Under this requirement, a Director is not independent if the Director has received any consulting or other fees outside his or her capacity as Director or committee member or if the Director is affiliated with the company or its subsidiary. This standard excludes from Audit Committee membership representatives of large stockholders.

Generally, a Director shall be considered to be independent if the Director;

1. Has not been an employee of the Company for at least five years;
2. Has not, during the last five years, been affiliated with or employed by a present or former auditor of the Company or of any affiliate of the Company;
3. Has not, during the last five years, been employed by a company for which an officer of the Company concurrently served as a Director;
4. Has no immediate family members (i.e. spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughter-in-law, brothers and sisters-in-law and anyone (other than employees) who shares the Director's home) who did not satisfy the foregoing criteria during the last five years;
5. Is not an "affiliated person" of the Company or any subsidiary of the Company, as such term is defined by the Securities and Exchange Commission; and
6. Has not, during the last two years, received, directly or indirectly, any consulting, advisory or other fees or payments from the Company (other than in his or her capacity as a member of the Board of Directors, or any committee of the Board), which includes, among other things, receipt of such fees or payments by any immediate family members (as defined above) of the Director or by any entity as to which the Director or any immediate family member (as defined above) is a partner, member, principal or director or by which the Director or immediate family member is employed.

In making a determination regarding a proposed Director's independence, the Board shall consider all relevant facts and circumstances, including the Director's commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships and such other criteria as the Board may determine from time to time. The Board shall assess the materiality of a Director's relationship with the Company by considering the issue from the standpoint of the Director and from that of any person or organization with which the Director has an affiliation.

The Company shall disclose such determinations in the Company's annual proxy statements or otherwise at least annually.

DESIRABLE CHARACTERISTICS OF DIRECTORS

Personal Characteristics

- *Integrity and Accountability*: High ethical standards, integrity and strength of character in his or her personal and professional dealings and a willingness to act on and be accountable for his or her decisions.

- *Informed Judgment*: Demonstrate intelligence, wisdom and thoughtfulness in decision-making. Demonstrate a willingness to thoroughly discuss issues, ask questions, express reservations and voice dissent.
- *Financial Literacy*: An ability to read and understand balance sheets, income and cash flow statements.
- *Mature Confidence*: Assertive, responsible and supportive in dealing with others. Respect for others, openness to others' opinions and willingness to listen.
- *High Standards*: History of achievements that reflect high standards for himself or herself and others.

Core Competencies

- *Accounting and Finance*: Experience in financial accounting and corporate finance, especially with respect to trends in debt and equity markets. Familiarity with internal financial controls.
- *Business Judgment*: Record of making good business decisions and evidence that duties as a Director shall be discharged in good faith and in a manner that is in the best interests of the Company.
- *Management*: Experience in corporate management. Understand management trends in general and in the areas in which the Company conducts its business.
- *Crisis Response*: Ability and time to perform during periods of both short-term and prolonged crisis.
- *Industry*: Experience and skills in an area in which the Company conducts its business.
- *Leadership*: Understand and possess skills and have a history of motivating high-performing, talented managers.
- *Strategy and Vision*: Skills and capacity to provide strategic insight and direction by encouraging innovations, conceptualizing key trends, evaluating strategic decisions, and challenging the Company to sharpen its vision.

Commitment to the Company

- *Time and Effort*: Willing to commit the time and energy necessary to satisfy the requirements of Board and Committee membership. Expected to attend and participate in all Board meetings and Committee meetings in which they are a member. A willingness to rigorously prepare prior to each meeting and actively participate in the meeting. Willingness to make himself or herself available to management upon request to provide advice and counsel.
- *Awareness and Ongoing Education*: Possess, or be willing to develop, a knowledge of both critical issues affecting the Company (including industry, technology and market-specific information), and Director's roles and responsibilities (including the general legal principles that guide board members).
- *Other Commitments*: In light of other existing commitments ability to perform adequately as a Director, including preparation for and attendance at Board meetings and a willingness to do so.

Contribution to the Board

- *Balancing the Board*: Contributes talent, skills and experience that the Board needs as a team to supplement existing resources and provide talent for future needs.

- *Diversity*: Contributes to the Board in a way that can enhance perspective and experiences through diversity in gender, ethnic background, geographic origin, and professional experience (public, private, and non-profit sectors). Nomination of a candidate shall not be based solely on these factors.

ANNUAL REVIEW OF THE CHARTER AND PERFORMANCE

The Board of Directors shall review and reassess these Guidelines annually to reflect the requirements of the Sarbanes-Oxley Act of 2002, the rules and regulations of the SEC and the NASDAQ in conjunction with Bank's counsel as necessary.