

ROYAL BANCSHARES OF PENNSYLVANIA

AUDIT COMMITTEE CHARTER

Purpose

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of Royal Bancshares of Pennsylvania (the “Company”) to assist the Board in monitoring (1) the integrity of the financial statements of the Company, (2) the independent auditor’s qualification and independence, (3) the performance of the Company’s internal audit function and independent auditors, and (4) the compliance by the Company with legal and regulatory requirements.

The primary responsibility of the Committee is to oversee the Company’s financial reporting process on behalf of the Board and report the results of their activities to the Board. Management is responsible for preparing the Company’s financial statements and related disclosures and the Company’s independent auditors are responsible for auditing those financial statements. It is not the duty of the Committee to plan or conduct audits or to determine that the Company’s financial statements are complete or accurate and in accordance with GAAP. It shall be the duty of the Committee to assist the Board in the oversight of the Company’s legal and regulatory requirements. It is not the duty of the Committee to assure compliance with the Company’s Code of Ethics.

Committee Membership

The Committee shall consist of no fewer than three members and no more than five members, each of whom shall be a director of the Company. Each member of the Committee shall meet the independence and experience of the listing standards of NASDAQ and the SEC and all other applicable legal requirements, including the requirement that at least one member of the Committee be an “audit committee financial expert” within the meaning of rules promulgated by the SEC under the Sarbanes-Oxley Act of 2002. Each member of the Committee shall be “financially” literate in the business judgment of the Board. A majority of the members of the Committee shall constitute a quorum.

Committee members shall be appointed in accordance with the Company’s bylaws and policies established by the Board. Committee members may be replaced by the Board.

The Committee may request any officer or employee of the Company or the Company’s outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee without the consent of management or the Board. The Committee shall meet with management, the internal auditors and the independent auditor in separate executive sessions at least quarterly. The

Committee shall make regular reports to the Board. The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Committee shall annually review the Committee's own performance and present such review to the Board.

Statement of Policy

The Committee shall provide assistance to the Board in fulfilling its responsibility to the shareholders, potential shareholders, the investment community and others relating to the Company's corporate accounting and financial reporting processes, the systems of internal accounting and financial controls, the internal audit function, and the annual independent audit of the Company's financial statements.

In carrying out its responsibilities, the Committee believes its policies and procedures should remain flexible, in order to best react to changing circumstances and conditions.

The Committee, and each member of the Committee in his or her capacity as such, shall be entitled to rely, in good faith, on information, opinions, reports or statements, or other information prepared or presented to them by (i) officers and other employees of the Company or Royal Bank America, whom such member believes to be reliable and competent in the matters presented, or (ii) counsel, public accountants, internal auditors or other persons as to matters which the member believes to be within the professional competence of such person.

Committee Authority and Responsibilities

- Responsibilities Relating to Retention of Public Accounting Firms – The Committee shall be directly responsible for the appointment, compensation, oversight of the work, evaluation and termination of any accounting firm employed by the Company (including resolving disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report and related work. The accounting firm shall report directly to the Committee.
- Preapproval of Services – All auditing services (which may entail providing comfort letters or consents in connection with securities underwritings) and all non-audit services, provided to the Company by the Company's auditors which are not prohibited by law shall be preapproved by the Committee pursuant to such processes as are determined to be advisable.
- Exception – The preapproval requirement set forth above, shall not be applicable with respect to the provision of non-audit services, if:
 - (i) the aggregate amount of all such non-audit services provided to the Company constitutes not more than 5 percent of the total amount of

revenues paid by Company to its auditor during the fiscal year in which the non-audit services are provided;

(ii) such services were not recognized by the Company at the time of the engagement to be non-audit services; and

(iii) such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board of Directors to whom authority to grant such approvals has been delegated by the Committee.

- Delegation – The Committee may delegate to one or more designated members of the Committee the authority to grant required preapprovals. The decisions of any member to whom authority is delegated under this paragraph to preapprove an activity under this subsection shall be presented to the full Committee at its next scheduled meeting.
- Complaints – The Committee shall establish procedures to facilitate:
 - (i) the receipt, retention, and treatment of complaints received by the Company from third parties regarding accounting, internal accounting controls, or auditing matters; and
 - (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Financial Statement and Disclosure Matters.

The Committee, to the extent it deems necessary or appropriate, shall:

- Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures made in management's discussion and analysis of financial condition and results of operation and any other matters required to be communicated to the Committee by the independent auditors under Generally Accepted Auditing Standards, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.
- Review and discuss with management and the independent auditor the Company's quarterly financial statements, including the disclosures made in management's discussion and analysis of financial condition and results of operations prior to the filing of the Company's Form 10-Q, including the results of the independent auditors' reviews of the quarterly financial statements and any other matters

required to be communicated to the Committee by the independent auditors under Generally Accepted Auditing Standards.

- Annually the Committee shall receive a report from the independent auditor prior to the filing of its audit report with the SEC, on (i) any significant changes in the Company's selection or application of accounting principles, (ii) any major issues as to the adequacy of the Company's internal controls, (iii) the development, selection and disclosure of critical accounting estimates, (iv) all material alternative treatments of financial information within GAAP that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and treatment preferred by the independent auditor, (v) their judgment about the quality, not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity and adequacy of the disclosures, including financial trends of the financial statements and notes thereto, (vi) the adoption of, or changes to, the Company's significant auditing and accounting principles and practices; (vii) any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, or personnel and any significant disagreements with management; (viii) and any other matters required to be communicated to the Committee by the independent auditors under Generally Accepted Auditing Standards. The report should also include any other formal written communications between the independent auditor and management, including the management letter provided by the independent auditor and the Company's response to that letter.
- Discuss with management the Company's earnings press releases, including the use of "pro forma", "adjusted" or other non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies.
- Discuss with management and the independent auditor the effect of accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
- Discuss with management, the internal auditors, the compliance auditors and the legal department the effect of regulatory initiatives on the Company's financial statements.
- Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

Oversight of the Company's Relationship with the Independent Auditor

- Review the experience and qualifications of the senior members of the independent auditor team.

- Obtain and review a written report from the independent auditor at least annually regarding (i) the auditor's internal quality-control procedures, (ii) any material issues raised by the most recent quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years concerning one or more independent audits carried out by the firm, (iii) any steps taken to deal with any such issues, and (iv) all relationships, both direct and indirect, between the independent auditor and the Company. Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and the internal auditor. The Committee shall present its conclusions to the Board.
- Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the lead audit partner or even the independent auditing firm itself on a regular basis.
- Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditor who were engaged on the Company's account.
- Discuss with the independent auditor issues on which the independent auditor communicated with its national office regarding auditing or accounting issues.
- Meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.

Oversight of the Company's Internal Audit Function

- Review the appointment and replacement of the senior internal auditing executive.
- Review the significant reports to management prepared by the internal auditing department and management's responses.
- Discuss with the independent auditor the internal audit department responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.

Compliance Oversight

- Obtain from the independent auditor such assurance as it deems adequate that such auditor has fulfilled its responsibilities under Section 10A of the Securities Exchange Act of 1934.

- Obtain reports from management, the Company's senior internal auditing executive and the regulatory compliance and legal/compliance department relating to the Company's conformity with applicable legal and regulatory requirements. Review reports and disclosures of insider and affiliated party transactions.
- Review with management, the Company's internal auditors and the Company's legal/compliance department compliance with laws and regulations. Advise the Board with respect to the Company's compliance with applicable laws and regulations.
- Review with the Office of the Company's General Counsel, pending material litigation and compliance matters.
- The Committee will address and take action, as it deems necessary or appropriate, with respect to any issues regarding the provisions of the Company's Code of Ethics for the Chief Executive Officer and Senior Financial Officers to the extent the issue relates to accounting and disclosure and regulations of the SEC, NASDAQ, the FDIC or other bank regulatory authority, and any provision of such Code to the extent such misrepresentation or omission relates to financial statements or related financial information.
- The Committee will address and take any action, as it deems necessary or appropriate, with respect to any issues relating to inquiries or investigations regarding the quality of financial reports filed by the Company with the SEC or otherwise distributed to the public.

Miscellaneous Powers and Responsibilities

- The Committee shall have the power to investigate any matter brought to its attention within the scope of its duties, with the power to retain outside counsel for this purpose if, in its judgment, that is appropriate.
- The Committee shall have the responsibility to submit the minutes of all meetings of the Audit Committee to the Board of Directors.
- The Audit Committee shall have the responsibility to prepare the report required to be included in the Company's annual proxy statement by the rules of the Securities and Exchange Commission and for oversight of the compliance effort with respect to FDIC regulations that relates to the internal audit function and FDIC regulations that relates to the external audit function.
- The Committee shall have the power to access the Company's counsel without the approval of management, as it determines necessary to carry out its duties.

- The Committee shall also have the authority without the consent of management or the Board, at the Company's expense, to the extent it deems necessary or appropriate, to retain special independent legal, accounting or other consultants to advise the Committee in connection with fulfilling its obligations hereunder.
- At the request of the Board, the Committee shall have the responsibility of discussing with management and the independent auditor any significant or material correspondence with regulators or governmental agencies, including all examination reports received from the various supervisory authorities and review management's replies to such correspondence or reports. The Committee shall have the responsibility of discussing with management and the independent auditor any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies and review management's replies to such complaints.
- The Committee shall have the responsibility to discuss with the Company's General Counsel legal matters that may have a material impact on the financial statements or the Company's compliance policies.

Meetings

The Committee shall meet as often as it determines, but not less frequently than quarterly. The Audit Committee may form and delegate authority to Committee members when appropriate, including specifically the pre-approval of non-audit services and the review of earnings releases, and earnings guidance.

Minutes of each meeting will be compiled by the person designated by the Committee.