



April 8, 2011

To our shareholders,

I am writing you today to provide additional context to the considerable volume of information contained within our 10-K. In the over 150 pages of charts, graphs, notes and pronouncements, you may have missed what I believe are three key markers for the future growth and success of our company, namely the continued streamlining of our business through the sale of Royal Asian Bank, the realignment of our balance sheet to enhance capital and the pursuit of aggressive solutions to dispose of non-performing assets.

Before we review these items, I would like to reiterate a comment I made in our 4Q/EOY10 release (available online at www.royalbankamerica.com/investor.php) regarding our financial results for the year, "...persistent challenges remain and although we have made significant progress, we are not and will not be satisfied until we can return our company to consistent profitability."

Sale of Royal Asian Bank

On December 30, 2010, we completed the sale of Royal Asian Bank to an investor group led by Edward Shin. Launched by us in 2004, this bank focused on serving the specific needs of the Korean-American communities in and around New York City and Philadelphia. The sale marked a bittersweet end to one of our most ambitious projects. The launch of an entirely new bank and its eventual rise to \$100 million in assets were exciting, but it had become clear to us that the long-term success of this type of niche bank would rely on a level of involvement and investment in these communities that did not match up with our strategic plan. We wish Mr. Shin and his team well. The \$12.3 million sale price, \$10.3 million of which was capital we were able to put back into the bank, further bolstered our capital ratios, but perhaps most importantly the sale enabled us to continue the process of streamlining our operations to better focus on the core components that we expect will return us to sustainable profitability.

Deleveraging of our balance sheet

We continued to pursue the deleveraging strategy we discussed in our 3Q10 letter to shareholders as a method to realign our balance sheet and enhance capital. In addition to the balance sheet benefits of the Royal Asian Bank sale noted above, we substantially reduced our reliance on brokered deposits, shedding approximately \$118 million of these generally higher priced instruments and reducing our borrowings with the Federal Home Loan Bank by \$99 million. The resultant lowering in our cost of funds fueled a substantial uptick in net interest margin and further solidified our capital ratios.

Progress in reducing non-performing assets

As we have discussed in prior letters and with many of you in person at our shareholders meetings, non-performing assets have significantly weighed on our bottom line for several years. We have a talented team of individuals working diligently on these assets and we have been encouraged by the success they have had and in their ability to maximize the proceeds on many of these assets. Still, our percentage of non-performing assets remains at a level that the board and I deem not acceptable. To that end, the board directed our senior management team to pursue a bulk sale of a large percentage of these non-performing assets.

This course of action did not come without an extraordinary accounting adjustment, which you will have noticed in our 4Q10 reporting. In accordance with GAAP accounting rules, we were required to increase our provision for loan losses and impairment charges in preparation for the sale. This impact was not insignificant, as we added \$14.2 million to our loss in the quarter, but we truly view this as short-term pain for a long-term gain. Upon completion of the sale we will have decreased the bank's level of non-performing assets to total assets to a three-year low of 7.38%*, improved our credit quality and freed up capital to reinvest into earning assets which will have a positive impact on our financial results moving forward.

<continued>

Concurrently, we have pursued auctions as a vehicle to quickly dispose of owned residential real estate projects in our portfolio. This solution yielded positive results for two of our larger properties, one in North Carolina and another in New Jersey, and a third this past weekend for a property we own as part of a partnership in Blue Bell, PA. Thanks to the uniquely competitive environment created by the auction and the value and desirability of these projects, we were able to achieve impressive results in less time than conventional sales and we are strongly considering utilizing this method for other projects that remain in our portfolio.

It bears noting that we are not immune to the outside factors that have so dramatically reshaped our nation's economic landscape. Our continued forward progress will come with the cooperation of our economy as a whole, and an improving real estate market will go a long way towards helping us pare our portfolio of non-performing assets, while simultaneously spurring other aspects of our overall business.

Another key initiative that helped shape our 2010 and the beginning of 2011 has been the further bolstering of our board with the appointment of three new directors, each endowed with a highly desirable skill set, substantive leadership experience and strong regional business ties. William R. Hartman, a former bank Chairman and CEO and past member of the Federal Reserve Bank of Chicago's Detroit Board; Michael J. Piracci, a former Assistant Regional Director with the FDIC; and Jay H. Shah, CEO of Hersha Hospitality Trust (NYSE: HT), a leading hospitality industry real estate investment trust; all bring impressive credentials, vision and enthusiasm to our board. Their strong independent voices, along with the wealth of expertise already represented on our board, will help us develop the roadmap that will guide our company forward for years to come.

I'd like to close this letter with a few words about our most valuable assets – our employees. Through the tumult of the past few years they have remained engaged, unflappable and enthusiastic. The level of communication within our organization ensures that we are always keenly aware of the successes they are having in spreading the word about Royal. This year more than ever before they have been able to develop deeper relationships with existing customers, providing solutions which have enabled so many of our small business customers to grow and thrive, and equally as many personal customers to realize their own financial goals.

Through countless hours of volunteer work our employees have established themselves as leaders in their communities as well as trusted advisors on topics as close to home as finance and as far afield as youth sports. It always reminds me that our bank started back in 1963 as the Bank of King of Prussia, a rural bank whose focus was on meeting the needs of businesses and individuals on a one-to-one basis. While many banks have grown to a size where this level of attention is no longer the norm, we still believe that this is our market advantage and we intend to keep our focus fixed on our customers as individuals and our services as a means for them to achieve their goals.

We appreciate the support and patience of our shareholders. As always, we endeavor to keep the lines of communication open with you and encourage you to reach out to us with your questions or comments.

Sincerely,
Robert R. Tabas
Chairman & CEO
Royal Bancshares of Pennsylvania, Inc.

*as of December 31, 2010 based on the closing of the loan sale.

Forward-Looking Statement

The foregoing material may contain forward-looking statement. We caution that such statements may be subject to a number of uncertainties, and actual results could differ materially; therefore, readers should not place undue reliance on any forward-looking statements. Royal Bancshares of Pennsylvania, Inc. does not undertake, and specifically disclaims, any obligation to publicly release the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. For a discussion of the factors that could cause actual results to differ from the results discussed in any such forward-looking statements, see the filings made by Royal Bancshares of Pennsylvania, Inc. with the Securities and Exchange Commission, including its Annual Report -- Form 10-K for the year ended December 31, 2010.