ROYAL BANCSHARES OF PENNSYLVANIA INC
Form 10-Q
August 14, 2003

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the quarterly period ended: June 30, 2003

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from:_____to

Commission file number: 0-26366

ROYAL BANCSHARES OF PENNSYLVANIA, INC.
(Exact name of the registrant as specified in its charter)

PENNSYLVANIA	23-2812193
(State or other jurisdiction of incorporated or organization)	(IRS Employer identification No.)

732 Montgomery Avenue, Narberth, PA 19072
(Address of principal Executive Offices)

(610) 668-4700
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the bank (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the bank was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class A Common Stock	Outstanding at June 30, 2003
$2.00 par value	9,898,794

Class B Common Stock	Outstanding at June 30, 2003

$.10 par value	1,911,087

Royal Bancshares of Pennsylvania, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	June 30, 2003 (Unaudited)
ASSETS	
Cash and due from banks	$ 118,937
Federal funds sold	15,050
Total cash and cash equivalents	133,987
Investment securities held to maturity (fair value of $31,389 at June 30, 2003 and $32,745 at December 31, 2002)	29,427
Investment securities available for sale - at fair value	464,576
Loans held for sale	8,358
Total loans	539,252
Less allowance for loan losses	12,654
Net loans	534,956
Premises and equipment, net	7,844
Accrued interest and other assets	25,039
Total assets	$1,195,829
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities	
Deposits	
Non-interest bearing	$ 60,819
Interest bearing (includes certificates of deposit in excess of $100 of $124,336 at June 30, 2003 and $180,978 at December 31, 2002)	778,378
Total deposits	839,197
Accrued interest payable	10,755
Borrowings	207,500
Other liabilities	6,673
Total liabilities	1,064,125
MINORITY INTEREST	730
Stockholders' equity	
Common stock	
Class A, par value $2 per share; authorized, 18,000,000 shares; issued, 9,898,794 at June 30, 2003 and 9,595,191 at December 31, 2002	19,798
Class B, par value $.10 per share; authorized, 2,000,000 shares; issued, 1,911,087 at June 30, 2003 and 1,860,668 at December 31, 2002	191
Additional paid in capital	83,587
Retained earnings	20,528
Accumulated other comprehensive income	9,135
	133,239

Treasury stock - at cost, shares of Class A, 215,388 at June 30, 2003, and December 31, 2002.	(2,265)
Total stockholders' equity	130,974
Total liabilities and stockholders' equity	$1,195,829

The accompanying notes are an integral part of these statements.

Royal Bancshares of Pennsylvania, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(in thousands, except per share data)	Three months ended June 30, 2003	Three months ended June 30, 2002
Interest income		
Loans, including fees	$11,503	$12,919
Investment securities held to maturity	578	1,022
Investment securities available for sale	5,427	4,651
Deposits in banks	199	179
Federal funds sold	46	62
TOTAL INTEREST INCOME	17,753	18,833
Interest expense		
Deposits	5,731	7,385
Borrowings	1,899	1,843
TOTAL INTEREST EXPENSE	7,630	9,228
NET INTEREST INCOME	10,123	9,605
Provision for loan losses	167	50
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,956	9,555
Other income		
Service charges and fees	301	259
Net gains on sales of investment securities	--	(14)
Gains on sales of other real estate	109	94
Gains on sales of loans	153	175
Other income	42	20
	605	534
Other expenses		
Salaries & wages	1,995	1,881
Employee benefits	508	459
Occupancy and equipment	329	319
Other operating expenses	1,850	2,002
	4,682	4,661
INCOME BEFORE INCOME TAXES	5,879	5,428
Income taxes	1,899	1,531
NET INCOME	$ 3,980	$ 3,897
Per share data		

Net income - basic	$ .34	$ .33
Net income - diluted	$ .33	$ .32

The accompanying notes are an integral part of these statements.

Royal Bancshares of Pennsylvania, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(in thousands, except per share data)	Six months ended June 30, 2003	2002
Interest income		
Loans, including fees	$23,690	$27,133
Investment securities held to maturity	1,171	2,540
Investment securities available for sale	10,950	7,720
Deposits in banks	284	451
Federal funds sold	90	132
TOTAL INTEREST INCOME	36,185	37,976
Interest expense		
Deposits	12,163	15,028
Borrowings	3,495	3,417
TOTAL INTEREST EXPENSE	15,658	18,445
NET INTEREST INCOME	20,527	19,531
Provision for loan losses	317	250
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	20,210	19,281
Other income		
Service charges and fees	555	545
Net gains(losses) on sales of investment securities	144	(14)
Gains on sales of other real estate	189	259
Gains on sales of loans	284	377
Other income	57	34
	1,229	1,201
Other expenses		
Salaries & wages	3,983	3,809
Employee benefits	892	897
Occupancy and equipment	665	555
Other operating expenses	3,686	3,817
	9,226	9,078
INCOME BEFORE INCOME TAXES	12,213	11,404
Income taxes	3,833	3,292
NET INCOME	$ 8,380	$ 8,112
Per share data		
Net income - basic	$ .71	$ .69
Net income - diluted	$ .70	$ .67

	=======	=======

The accompanying notes are an integral part of these statements.

Royal Bancshares of Pennsylvania, Inc. and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
Six Months ended June 30, 2003
(UNAUDITED)

	Class A Common Stock		Class B Common St	
(in thousands)	Shares	Amount	Shares	Amoun
Balance, January 1, 2003	9,595	$19,190	1,861	$
Net income for the three months ended Jun. 30,	-	-	-	
Conversion of Class B common stock to Class A Common stock	6	12	(5)	
Purchase of treasury stock	-	-	-	
3% stock dividend declared	281	563	55	
Cash dividends on common stock	-	-	-	
Cash in lieu of fractional shares	-	-	-	
Stock options exercised	17	33	-	
Other comprehensive income, net of Reclassifications and taxes	-	-	-	
Comprehensive income				-
Balance, June 30, 2003	9,899	$19,798	1,911	$
	=====	=======	=====	=

(in thousands)	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Comprehensive Income
Balance, January 1, 2003	$ (2,265)	$2,415	
Net income for the three months ended Jun. 30,	-	-	$ 8,380
Conversion of Class B common stock to Class A Common stock	-	-	-
Purchase of treasury stock	-	-	-
3% stock dividend declared	-	-	
Cash dividends on common stock	-	-	-

Cash in lieu of fractional shares	-	-	-
Stock options exercised	-	-	-
Other comprehensive income, net of Reclassifications and taxes	-	6,720	6,720
Comprehensive income			$15,100
Balance, June 30, 2003	$ (2,265)	$9,135	

The accompanying notes are an integral part of the financial statement.

Royal Bancshares of Pennsylvania, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
Six months ended June 30,
(in thousands)

	2003	2002
Cash flows from operating activities		
Net income	$ 8,380	$ 8
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	517	
Provision for loan loss	317	
Net accretion of discounts on loans, mortgage-backed securities and investments	101	
Provision for deferred income taxes	269	1
Gains on other real estate	(189)	
Gains on sales of loans	(284)	
Net (gain) loss on sales of investment securities	(144)	
Changes in assets and liabilities:		
Increase in accrued interest receivable	(1,255)	(1
(Increase) in other assets	(1,651)	(2
(Decrease) in accrued interest payable	(651)	
(Decrease) in other liabilities	(9)	(2
Net cash provided by (used in) operating activities	5,401	2
Cash flows from investing activities		
Proceeds from calls/maturities of HTM investment securities	2,000	38
Proceeds from calls/maturities of AFS investment securities	131,522	87
Proceeds from sales of AFS investment securities	19,078	2
Purchase of AFS investment securities	(182,766)	(210
Purchase of FHLB Stock	(3,654)	(3
Net decrease in loans	29,323	36
Purchase of premises and equipment	(359)	
Net cash provided by (used in) investing activities	(4,856)	(50
Cash flows from financing activities:		
Net increase in non-interest bearing and interest bearing demand deposits and savings accounts	83,078	143
Net decrease in certificates of deposit	(64,722)	(113
Mortgage payments	(30)	
Net increase in borrowings	80,000	57
Cash dividends	(5,640)	(5
Cash in lieu of fractional shares	(8)	
Issuance of common stock under stock option plans	193	

Net cash provided by (used in) financing activities	92,871	83
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	93,416	35
Cash and cash equivalents at beginning of year	40,571	40
Cash and cash equivalents at end of year	$133,987	$75

The accompanying notes are an integral part of these statements.

ROYAL BANCSHARES OF PENNSYLVANIA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The accompanying unaudited consolidated financial statements include the accounts of Royal Bancshares of Pennsylvania, Inc. (the Company) and its wholly-owned subsidiaries: Royal Equity Partners, Inc. and Royal Bank of Pennsylvania (the Bank), Royal Real Estate of Pennsylvania, Inc. and its 60% ownership interest in Crusader Servicing Corporation. These financial statements reflect the historical information of the Company. All significant inter-company transactions and balances have been eliminated.

1. The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information. The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in opinion of management, necessary to present a fair statement of the results for the interim periods. These interim financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2002. The results of operations for the three-month period ended June 30, 2003, are not necessarily indicative of the results, to be expected for the full year.

2. Segment Information

The Company's community banking segment consists of commercial and retail banking. The community banking business segment is managed as a single strategic unit which generates revenue from a variety of products and services provided by the Bank. For example, commercial lending is dependent upon the ability of the Bank to fund itself with retail deposits and other borrowings and to manage interest rate and credit risk. The same is also true for consumer and residential mortgage lending.

The Company's tax lien operation does not meet the quantitative thresholds for requiring disclosure, but has different characteristics to the community banking operation. The Company's tax lien operation consists of purchasing delinquent tax certificates from local municipalities at auction. The tax lien operation is managed as a single strategic unit which generates revenue from a nominal interest rate achieved at the individual auction along with periodic penalties imposed.

The accounting policies used in this disclosure of business segments are the same as those described in the summary of significant accountings policies. The consolidating adjustments reflect certain eliminations of inter-segment revenues, cash and investments in subsidiaries.

Six months ended June 30 2003,

(in thousands)	Community Banking	Tax Lien Operation	Consolidated
Total assets	$1,147,104	$48,725	$1,195,829
Total deposits	839,197	--	839,197
Net interest income	18,803	1,724	20,527
Provision for loan losses	300	17	317
Other income	1,051	178	1,229
Other expense	8,217	1,009	9,226
Income tax expense	3,614	219	3,833
Net income	$ 7,723	$ 657	$ 8,380

	Six months ended June 30 2003,		
(in thousands)	Community Banking	Tax Lien Operation	Consolidated
Total assets	$968,032	$52,922	$1,020,954
Total deposits	732,517	--	732,517
Net interest income	18,112	1,419	19,531
Provision for loan losses	250	--	250
Other income	1,001	200	1,201
Other expense	8,233	845	9,078
Income tax expense	3,106	186	3,292
Net income	$ 7,524	$ 588	$ 8,112

Interest paid to the Community Bank segment by the Tax Lien Operation was approximately $974 thousand and $910 thousand for the six months period ending June 30, 2003, and 2002, respectively.

3. Per Share Information

The Company follows the provisions of SFAS No. 128, "Earnings Per Share. Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted EPS takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. In January 2003 the Company declared a 3% stock dividend. All share and per share information has been restated to reflect this dividend. Basic and diluted EPS are calculated as follows (In thousands, except per share data):

	Three months ended June 30, 2003		
	Income (numerator)	Average shares (denominator)	Per shar Amount

Basic EPS			
Income available to common shareholders	$3,980	11,875	$0.3
Effect of dilutive securities			
Stock options		58	(.0
Diluted EPS			
Income available to common shareholders Plus assumed exercise of options	$3,980	11,933	$0.3

	Three months ended June 30, 2002		
	Income (numerator)	Average shares (denominator)	Per shar Amount
Basic EPS			
Income available to common shareholders	$3,897	11,856	$0.3
Effect of dilutive securities			
Stock options		325	(.0
Diluted EPS			
Income available to common shareholders Plus assumed exercise of options	$3,897	12,181	$0.3

	Six months ended June 30, 2003		
	Income (numerator)	Average shares (denominator)	Per shar Amount
Basic EPS			
Income available to common shareholders	$8,380	11,876	$0.7
Effect of dilutive securities			
Stock options		56	(.0
Diluted EPS			
Income available to common shareholders Plus assumed exercise of options	$8,379	11,932	$0.7

	Six months ended June 30, 2002		
	Income (numerator)	Average shares (denominator)	Per shar Amount
Basic EPS			
Income available to common shareholders	$8,112	11,824	$0.6
Effect of dilutive securities			
Stock options		308	(.0
Diluted EPS			

Income available to common shareholders			
Plus assumed exercise of options	$8,112	12,132	$0.3

4. Investment Securities:

The carrying value and approximate market value of investment securities at June 30, 2003 are as follows:

(in thousands)	Amortized Purchased Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Held to maturity:				
Mortgage Backed	$ 411	$ --	$ --	$ 411
Other Securities	29,016	1,987	--	30,978
	$ 29,427	$ 1,987	$ --	$ 31,389
Available for sale:				
Federal Home Loan Bank Stock - at cost	$ 11,529	$ --	$ --	$ 11,529
Mortgage Backed	96,224	169	(7)	96,386
CMO's	104,120	558	--	104,678
US Agencies	17,807	50	--	17,857
Other securities	221,055	15,051	(1,980)	234,126
	$450,735	$15,828	($1,987)	$464,576

5. Allowance for Credit Losses: Changes in the allowance for credit losses were as follows:

	Three months ended June 30,	
	2003	2002
(in thousands)		
Balance at beginning of period,	$12,602	$12,105
Loans charged-off	(142)	(167)
Recoveries	27	170
Net charge-offs and recoveries	(115)	3
Provision for loan losses	167	50
Balance at end of period	$12,654	$12,158

Six months ended June 30,

(in thousands)	2003	2002
Balance at beginning of period,	$12,470	$11,888
Loans charged-off	(201)	(294)
Recoveries	68	314
Net charge-offs and recoveries	(133)	20
Provision for loan losses	317	250
Balance at end of period	$12,654	$12,158

6. Non-performing loans

Loans on which the accrual of interest has been discontinued or reduced amounted to approximately $13.9 million and $10.4 million at June 30, 2003 and 2002, respectively. Although the Company has non-performing loans of approximately $13.9 million at June 30, 2003, management believes it has adequate collateral to limit its' credit risks.

The balance of impaired loans which included the loans on which the accrual of interest has been discontinued, was approximately $13.9 million and $10.5 million at June 30, 2003 and 2002, respectively. The Company identifies a loan as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreements. Although the company recognizes the balances of impaired loans when analyzing its' loan loss reserve, the allowance for loan loss associated with impaired loans was $2.8 million at June 30, 2003. The income that was recognized on impaired loans during the three-month period ended June 30, 2003 was $-0-. The cash collected on impaired loans during the same period was $287 thousand of which $287 thousand was credited to the principal balance outstanding on such loans. The Company's policy for interest income recognition on impaired loans is to recognize income on currently performing restructured loans under the accrual method. The Company recognizes income on non-accrual loans under the cash basis when the principal payments on the loans become current and the collateral on the loan is sufficient to cover the outstanding obligation to the Company. If these factors do not exist, the Company does not recognize income.

7. Stock-based Compensation

At June 30, 2003, the Company had both a director and employee stock-based compensation plan. The Company accounts for the plan under the recognition and measurement principals of APB No. 25, "Accounting

for Stock Issued to Employee, and related interpretations. Stock-based employee compensation cost are not reflected in net income, as all options granted under the plan had an exercise price equal to the market value under the underlying common stock of the date of the grant.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation--Transition and Disclosure" ("SFAS No. 148") in December 2002. SFAS No. 148 amends the disclosure and certain transition provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation". The new disclosure provisions are effective for financial statements

for fiscal years ending after December 15, 2002 and financial reports containing condensed financial statement for interim periods beginning after December 15, 2002.

The following table provides the disclosure required by SFAS No. 148 and illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

(in thousands, except per share data)		2003	2002
Net income(loss), as reported		$8,380	$8,112
Less: Stock-based compensation costs under Fair value based method for all awards.		(218)	(48)
Pro forma net income (loss)		$8,162	$8,064
Earnings per share - Basic	As reported	$0.71	$0.69
	Pro forma	$0.69	$0.68
Earnings per share - Diluted	As reported	$0.70	$0.67
	Pro forma	$0.68	$0.66

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

The following discussion and analysis is intended to assist in understanding and evaluating the changes in the financial condition and earnings performance of the Company and its' subsidiaries for the six-month period ended June 30, 2003.

From time to time, the Company may include forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters in this and other filings with the Securities Exchange Commission. The Private Securities Litigation Reform Act of 1995 provides safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties that may affect the operations, performance development and results of the Company's business include the following: general economic conditions, including their impact on capital expenditures, business conditions in the banking industry; the regulatory environment; rapidly changing technology and evolving banking industry standards; competitive factors, including increased competition with community, regional and national financial institutions; new service and product offerings by competitors and price pressures and similar items.

CRITICAL ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

The accounting and reporting policies of the company conform with accounting principals generally accepted in the United States of America and general practices within the financial services industry. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Allowance for Credit Losses

The company considers that the determination of the allowance for loan

losses involves a higher degree of judgment and complexity than its other significant accounting policies. The balance in the allowance for loan losses is determined based on management's review and evaluation of the loan portfolio in relation to past loss experience, the size and composition of the portfolio, current economic events and conditions, and other pertinent factors, including management's assumptions as to future delinquencies, recoveries and losses. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from managements estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods.

Income Taxes

Under the liability method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities. Deferred tax assets are subject to managements' judgment based upon available evidence that future realization is more likely

than not. If management determines that the company may be unable to realize all or part of the net deferred tax assets in the future, a direct charge to income tax expense may be required to reduce the recorded value of net deferred tax assets to the expected realizable amount.

FINANCIAL CONDITION

Total consolidated assets as of June 30, 2003 were $1,196 million, an increase of $107.3 million from the $1,088 million reported at year-end, December 31, 2002. This increase is primarily due to new deposits generated during the year, along with the utilization of low interest rates offered on advances at the F.H.L.B. of Pittsburgh.

Total loans decreased $29.1 million from the $576.7 million level at December 31, 2002 to $547.6 million at June 30, 2003. This decrease is attributed to the slow pace of the economic recovery and stiff loan competition that is occurring throughout the industry. The year-to-date average balance of loans was $570.9 million at June 30, 2003.

The allowance for loan loss increased $184 thousand to $12.7 million at June 30, 2003 from $12.5 million at December 31, 2002. The level of allowance for loan loss reserve represents approximately 2.3% of total loans at June 30, 2003 versus 2.2% at December 31, 2002. While management believes that, based on information currently available, the allowance for loan loss is sufficient to cover losses inherent in the Company's loan portfolio at this time, no assurances can be given that the level of allowance will be sufficient to cover future loan losses or that future adjustments to the allowance will be sufficient to cover future loan losses or that future adjustments to the allowance will not be necessary if economic and/or other conditions differ substantially from the economic and other conditions considered by management in evaluating the adequacy of the current level of the allowance.

The $45.1 million increase in total investment securities is primarily attributable to the redeployment of excess cash on hand to achieve a higher rate of return.

Total cash and cash equivalents increased $93.4 million from the $40.6 million level at December 31, 2002 to $134.0 million at June 30, 2003. This increase is primarily due to investments purchased and loan commitments that have not settled as of June 30, 2003.

Total deposits, the primary source of funds, increased $18.4 million to $839.2 million at June 30, 2003, from $820.8 million at December 31, 2002. This increase in deposits is primarily due to the competitive rates of our Royal Treasury money market. The balance of brokered deposits was $73.9 million, representing approximately 9% of total deposits at June 30, 2003. Generally,

these brokered deposits cannot be redeemed prior to the stated maturity, except in the event of the death or adjudication of incompetence of the deposit holder.

Consolidated stockholder's equity increased $9.7 million to $131.0 million at June 30, 2003 from $121.3 million at December 31, 2002. This increase is primarily due to net income of $8.4 million, partially offset by quarterly cash dividends totaling $5.6 million. Additionally, stockholder's equity increased by $6.7 million due to an adjustment in the market value of available-for-sale investment securities during the first six months of 2003.

RESULTS OF OPERATIONS

Results of operations depend primarily on net interest income, which is the difference between interest income on interest earning assets and interest expense on interest bearing liabilities. Interest earning assets consist principally of loans and investment securities, while interest bearing liabilities consist primarily of deposits. Net income is also effected by the provision for loan losses and the level of non-interest income as well as by non-interest expenses, including salary and employee benefits, occupancy expenses and other operating expenses.

Consolidated net income for the three months ended, June 30, 2003 was $4.0 million or $.34 basic earnings per share, as compared to net income of $3.9 million or $.33 basic earnings per share for the same three month period in 2002. Consolidated net income for the six months ended, June 30, 2003 was $8.4 million or $0.71 basic earnings per share, as compared to net income of $8.1 million or $0.69 basic earnings per share for the same six month period in 2002.

For the second quarter 2003, net interest income was $10.1 million as compared to $9.6 million for the same quarter in 2002, an increase of $500 thousand, or 5%. This increase is primarily due to an increase in the average balance of earning assets in the second quarter period of 2003 versus the same period in 2002. Interest income on loans decreased $1.4 million for the second quarter of 2003 versus 2002 primarily due to a decrease in the average balance of loans during the same period. Interest income on investment securities increased $332 thousand, a 6% increase over the same three-month period in 2002, which is primarily due to the increase in the average balance in investment securities. Total interest expense on deposits and borrowings decreased $1.6 million to $7.6 million as compared to $9.2 million for the same three-month period in 2002. This decrease in interest expense is primarily due the reduction of interest rates on deposits and borrowings.

Provision for loan losses was $167 thousand for the second quarter of 2003 and $50 for the same three-month period in 2002. Charge-offs and recoveries were $184 thousand and $69 thousand respectively, for the three-month period ended June 30, 2003 versus $167 thousand and $170 thousand, respectively, for the same three-month period in 2002. Overall, management considers the current level of allowance for loan loss to be adequate at June 30, 2003.

Total non-interest income for the three-month period ended June 30, 2003 was $605 thousand as compared to $534 thousand for the same three-month period in 2002. The $71 thousand increase in 2003 is primarily due to service charge and fee income collect on our deposit and loan customers.

Total non-interest expense for the three months ended June 30, 2003 was $4.7 million, an increase of $21 thousand, or 0.5%, as compared to $4.7 million for the same period in 2002.

CAPITAL ADEQUACY

The company is required to maintain minimum amounts of capital to total "risk weighted" assets and a minimum Tier 1 leverage ratio, as defined by the banking regulators. At June 30, 2003, the Company was required to have a minimum Tier 1 and total capital ratios of 4% and 8%, respectively, and a minimum Tier 1 leverage ratio of 3% plus an additional 100 to 200 basis points.

The table below provides a comparison of Royal Bancshares of Pennsylvania's risk-based capital ratios and leverage ratios:

	June 30, 2003	December 31, 2002
Capital Levels		
Tier 1 leverage ratio	10.9%	11.4%
Tier 1 risk-based ratio	14.5%	14.6%
Total risk-based ratio	15.8%	15.9%
Capital Performance		
Return on average assets	1.4% (1)	1.7% (1)
Return on average equity	12.3% (1)	15.2% (1)

(1) annualized

The Company's ratios compare favorably to the minimum required amounts of Tier 1 and total capital to "risk weighted" assets and the minimum Tier 1 leverage ratio, as defined by banking regulators. The Company currently meets the criteria for a well-capitalized institution, and management believes that the Company will continue to meet its' minimum capital requirements. At present, the Company has no commitments for significant capital expenditures.

The Company is not under any agreement with regulatory authorities nor is the Company aware of any current recommendations by the regulatory authorities that, if such recommendations were implemented, would have a material effect on liquidity, capital resources or operations of the Company.

LIQUIDITY & INTEREST RATE SENSITIVITY

Liquidity is the ability to ensure that adequate funds will be available to meet its' financial commitments as they become due. In managing its' liquidity position, all sources of funds are evaluated, the largest of which is deposits. Also taken into consideration is the repayment of loans. These sources provide alternatives to meet its' short-term liquidity needs. Longer liquidity needs may be met by issuing longer-term deposits and by raising additional capital. The liquidity ratio is generally maintained equal to or greater than 25% of deposits and short-term liabilities.

The liquidity ratio of the Company remains strong at approximately 71% and exceeds the Company's peer group levels and target ratio set forth in the Asset/Liability Policy. The Company's level of liquidity is provided by funds invested primarily in corporate bonds, capital trust securities, US Treasuries and agencies, and to a lesser extent, federal funds sold. The overall liquidity position is monitored on a monthly basis.

Interest rate sensitivity is a function of the repricing characteristics of the Company's assets and liabilities. These include the volume of assets and liabilities repricing, the timing of the repricing, and the interest rate sensitivity gaps is a continual challenge in a changing rate environment. The following table shows separately the interest sensitivity of each category of interest earning assets and interest bearing liabilities as of June 30, 2003:

Interest Rate Sensitivity

(in millions)	Days			
Assets (1)	0 - 90	91 - 365	1 to 5 Years	Over 5 Years
Interest-bearing deposits in banks	$108.3	$ --	$ --	$ --
Federal funds sold	15.1	--	--	--
Investment securities:				
Available for sale	15.0	5.6	175.1	268.9
Held to maturity	2.0	6.0	21.1	0.3
Total investment securities	17.0	11.6	196.2	269.2
Loans: (2)				
Fixed rate	18.3	44.9	165.1	69.7
Variable rate	203.2	21.0	26.6	0.7
Total loans	221.5	65.9	191.7	70.4
Other assets (3)	--	--	--	--
Total Assets	$361.9	$ 77.5	$387.9	$339.6
Liabilities & Capital				
Deposits:				
Non interest bearing deposits	$ --	$ --	$ --	$ --
Interest bearing deposits (4)	456.8	56.1	--	--
Certificate of deposits	23.8	87.7	145.6	8.4
Total deposits	480.6	143.8	145.6	8.4
Borrowings	3.0	30.0	60.0	114.5
Other liabilities	--	--	.3	--
Capital	--	--	--	--
Total liabilities & capital	$483.6	$173.8	$205.9	$122.9
Net interest rate GAP	($121.7)	($ 96.3)	$182.0	$216.7
Cumulative interest rate GAP	($121.7)	($218.0)	($ 36.0)	$180.7
AP to total assets	(10%)	(8%)		
GAP to total equity	(93%)	(74%)		
Cumulative GAP to total assets	(10%)	(18%)		
Cumulative GAP to total equity	(93%)	(166%)		

(1) Interest earning assets are included in the period in which the balances are expected to be repaid and/or repriced as a result of anticipated prepayments, scheduled rate adjustments, and contractual maturities.
(2) Reflects principal maturing within the specified periods for fixed and variable rate loans and includes nonperforming loans.
(3) For purposes of gap analysis, other assets include the allowance for possible loan loss, unamortized discount on purchased loans and deferred fees on loans.
(4) Based on historical analysis, Money market are assumed to have rate sensitivity of 1 month; NOW account and savings deposits are assumed to have a rate sensitivity of 4 months.

The Company's exposure to interest rate risk is mitigated somewhat by a

portion of the Company's loan portfolio consisting of floating rate loans, which are tied to the prime lending rate but which have interest rate floors and no interest rate ceilings. Although the Company is originating fixed rate loans, a portion of the loan portfolio continues to be comprised of floating rate loans with interest rate floors.

ITEM 4 - CONTROLS AND PROCEDURE

We maintain a system of controls and procedures designed to provide reasonable assurance to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, within 90 days prior to the filing date of this report. Based upon that evaluation, our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission filings. No significant changes were made to our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-based Compensation-Transition and Disclosure". SFAS 148 amends SFAS 123 "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary charge to the fair value based method of accounting for stock-based employees compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the methods of accounting for stock-based employee compensation and the effect of method used on reports results. SFAS 148 is effective for fiscal beginning after December 15, 2002. The expanded annual disclosure provisions are effective for financial reports containing financial statement for interim periods beginning after December 15, 2002. Management does not expect the adoption of SFAS 148 to have a material effect on the company's financial position, results of operations, or cash flows.

The Company adopted FIN 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others" on January 1, 2003. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has financial and performance letters of credit. Financial letters of credit require the company to make a payment if the customer's condition deteriorates, as defined in the agreements. Performance letters of credit require the company to make payments if the customer fails to perform certain non-financial contractual obligation. The Company previously did not record a liability when guaranteeing obligations unless it became probable that the company would have to perform under the guarantee. FIN 45 applies prospectively to guarantees the company issues or modifies subsequent to December 31, 2002. The maximum potential undiscounted amount of future payments of the letters of credit as of June 30, 2003 are $5.3 million and they expire through June 2004. Amounts due under these letters of credit would be reduced by any proceeds that the company would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

In January 2003, the FASB issued FASB Interpretation 46 (FIN 46), "Consolidation of Variable Interest Entities." FIN 46 clarifies the application of Accounting Research Bulletin 51, "Consolidated Financial Statements", for certain entities

that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or in which equity investors do not have the characteristics of controlling financial interest ("variable interest entities"). Variable interest entities

within the scope of FIN 46 will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest is determined to be he party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains and interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The company is in the process of determining what impact, if any, the adoption of the provisions of FIN 46 will have upon its financial condition or results of operations. The company does not anticipate FIN 46 to have a material impact on the consolidated financial position or results of operations.

The Company adopted Statement of Financial Accounting Standard 149 (SFAS No. 149), Amendment of Statement 133 on Derivative Instruments and Hedging Activities, on July 1, 2003. SFAS No. 149 clarifies and amends SFAS No. 133 for implementation issues raised by constituents or includes the conclusions reached by the FASB on certain FASB Staff Implementation Issues. Statement 149 also amends SFAS No. 133 to require a lender to account for loan commitments related to mortgage loans that will be held for sale as derivatives. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The Company periodically enters into commitments with its customers, which it intends to sell in the future. Management does not anticipate the adoption of SFAS No. 149 to have a material impact on the Company's financial position or results of operations.

The FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, on May 15, 2003. SFAS No. 150 changes the classification in the statement of financial position of certain common financial instruments from either equity or mezzanine presentation to liabilities and requires an issuer of those financial statements to recognize changes in fair value or redemption amount, as applicable, in earnings. SFAS No. 150 is effective for public companies for financial instruments entered into or modified after May 31, 2003 and is effective at the beginning of the first interim period beginning after June 15, 2003. Management has not entered into any financial instruments that would qualify under SFAS No. 150. As a result, management does not anticipate the adoption of SFAS No. 150 to have a material impact on the Company's financial position or results of operations.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and use of Proceeds

None

Item 3. Default and Upon Senior Securities

None

Item 4. Submission of Matters to Vote Security Holders

On Wednesday, May 21, 2003, the Annual Meeting of Shareholders of Royal Bancshares of Pennsylvania was convened in Philadelphia, PA at 6:30 P.M. The following nominees were elected as Class I Directors of the Registrant to serve for a three year term:

	For	Withhold
Joseph P. Campbell	24,838,632	108,843
Daniel M. Tabas	24,838,858	108,617
James J. McSwiggan	24,838,961	108,514
Murray Stempel, III	24,837,483	109,992
Howard Wurzak	24,837,483	109,992

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31 Section 302 Certification Pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 signed by Joseph P. Campbell, Chief Executive Officer of Royal Bancshares of Pennsylvania on August 13, 2003

31 Section 302 Certification Pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 signed by Jeffrey T. Hanuscin, Chief Executive Officer of Royal Bancshares of Pennsylvania on August 13, 2003

32 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Joseph P. Campbell, Chief Executive Officer of Royal Bancshares of Pennsylvania on August 13, 2003.

32 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Jeffrey T. Hanuscin, Chief Financial Officer of Royal Bancshares of Pennsylvania on August 13, 2003.

(b) The company filed the following report on Form 8-K during the quarter ended June 30, 2003.

July 17, 2003, Royal Bancshares of Pennsylvania, Inc. filed a Form 8-K reporting the release of earnings and declaration of stock dividend on both classes of common stocks.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ROYAL BANCSHARES OF PENNSYLVANIA, INC.
(Registrant)

Dated: August 13th, 2003 /s/ Jeffrey T. Hanuscin

Jeffrey T. Hanuscin
Chief Financial Officer