

TF FINANCIAL CORP  
Form 425  
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News Release

Filed by National Penn Bancshares, Inc.  
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Subject Company: TF Financial Corporation  
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National Penn Bancshares, Inc. Reports  
Second Quarter 2014 Results

Company Release - July 24, 2014

- Second quarter net income increases to \$0.19 per diluted share, compared to \$0.16 per diluted share in the prior quarter
- Return on average assets of 1.23% for the quarter and 1.16% year-to-date
- Strong asset quality sustained; non-performing loans continue to decline
- Operating expenses<sup>1</sup> remain well-controlled; second quarter efficiency ratio of 57%
- Third quarter 2014 cash dividend of \$0.10 cents per common share declared

Allentown, Pa. July 24, 2014 -- National Penn Bancshares, Inc. (Nasdaq: NPBC) reported net income of \$26.2 million, or \$0.19 per diluted share, for the second quarter of 2014. Earnings per share increased 19%, or \$0.03 per diluted share, compared to net income of \$22.7 million, or \$0.16 per diluted share in the prior quarter. Net income for the first half of 2014 was \$48.9 million, or \$0.35 per diluted share, as compared to adjusted net income<sup>1</sup> of \$48.4 million, or \$0.33 per diluted share, in the prior year period. National Penn's performance resulted in a return on average assets of 1.23% and 1.16% for the second quarter and first six months of 2014, respectively.

"The second quarter was another quarter of consistent, high level performance," said Scott V. Fainor, president and CEO of National Penn. "We maintained our net interest margin, our focus on controlling operating expenses, and realized the benefit of improvement in fee income. The balance sheet remains very strong, as evidenced by our asset quality metrics and capital ratios inclusive of the repurchase of 5% of our outstanding shares in the first quarter."

Net interest income for the second quarter of 2014 was \$63.0 million, compared to \$62.3 million for the first quarter of 2014, while the net interest margin for the second quarter of 2014 was stable at 3.43%, compared to 3.44% in the prior quarter. Loans grew approximately 3% since June 30, 2013, driven primarily by growth in commercial loans.

National Penn's asset quality metrics remained strong during the quarter. Total non-performing loans declined 10% from the prior quarter and 22% since June 30, 2013. Non-performing loans were 0.80% of total loans, declining from 0.89% at March 31, 2014 and 1.05% at June 30, 2013. Classified loans have declined 26% over the last twelve months and net charge offs declined approximately \$1 million compared to the prior quarter. This continued strength in asset quality was a factor in recording no provision for loan losses in the second quarter of 2014, compared to \$1.3 million in the prior quarter. National Penn's allowance for loan losses was 207% of non-performing loans at June 30, 2014, compared to 194% at March 31, 2014, and 189% at June 30, 2013.

Operating expenses<sup>1</sup> remained well-controlled, aggregating to \$52.1 million for the second quarter, compared to \$52.3 million in the prior quarter, and \$53.2 million in the second quarter of 2013. The efficiency ratio<sup>1</sup> was 57% for the second quarter of 2014.

Non-interest income increased \$2.9 million compared to the prior quarter. The growth in non-interest income for the second quarter included seasonal increases in banking fees, higher mortgage banking revenue, increased customer swap activity, and a \$0.9 million gain on sale of non-performing loans. The first quarter of 2014 included a \$0.5 million loss on an unconsolidated equity investment.

As previously announced, National Penn's Board of Directors declared a third quarter dividend of ten cents (\$0.10) per common share to shareholders of record as of Monday, August 4, 2014, payable on Friday, August 15, 2014. National Penn's tier 1 common and tangible common equity to tangible assets ratio increased to 13.44% and 10.03%, respectively, at June 30, 2014, compared to 13.22% and 9.86%, respectively, at March 31, 2014.

"Our second quarter results once again demonstrate the commitment of our entire team to delivering on our strategic objectives," said Scott V. Fainor. "In addition to the results we achieved for the quarter, we completed our previously announced expense reduction initiatives." Mr. Fainor continued, "During the quarter, we were also very pleased to have signed a definitive agreement to acquire TF Financial Corporation. The transaction allows us to leverage our capital base, accrete earnings per share, and enhance franchise value."

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About National Penn Bancshares, Inc.

National Penn Bancshares, Inc., with approximately \$8.6 billion in assets, is a bank holding company headquartered in Allentown, Pennsylvania. National Penn Bank operates 111 branch offices comprising 110 branches in Pennsylvania and one branch in Maryland.

National Penn's financial services affiliates are National Penn Wealth Management, N.A., including its National Penn Investors Trust Company division; National Penn Capital Advisors, Inc.; Institutional Advisors LLC; and National Penn Insurance Services Group, Inc., including its Higgins Insurance and Caruso Benefits Group divisions.

National Penn Bancshares, Inc. common stock is traded on the Nasdaq Stock Market under the symbol "NPBC". Please visit our Web site at [www.nationalpennbancshares.com](http://www.nationalpennbancshares.com) to see our regularly posted material information.

<sup>1</sup>Statement Regarding Non-GAAP Financial Measures

This release, including the attached Financial Highlights and financial data tables, contains supplemental financial information determined by methods other than in accordance with Accounting Principles Generally Accepted in the United States of America (“GAAP”). National Penn’s management uses these non-GAAP measures in its analysis of National Penn’s performance. These measures should not be considered a substitute for GAAP basis measures nor should they be viewed as a substitute for operating results determined in accordance with GAAP. Management believes the presentation of the following non-GAAP financial measures, which exclude the impact of the specified items, provides useful supplemental information that is essential to a proper understanding of the financial results of National Penn.

- Tangible common equity excludes goodwill and intangible assets and preferred equity. Banking and financial institution regulators also exclude goodwill and intangible assets from shareholders’ equity when assessing the capital adequacy of a financial institution. Tangible common equity provides a method to assess the Company’s tangible capital trends.
- Tangible book value expresses tangible common equity on a per share basis. Tangible book value provides a method to assess the level of tangible net assets on a per share basis.
- Adjusted net income and adjusted return on average assets exclude the effects of certain gains and losses, adjusted for taxes when applicable. Adjusted net income and adjusted return on average assets provide methods to assess earnings performance by excluding items that management believes are not comparable among the periods presented.
- Efficiency ratio expresses operating expenses as a percentage of fully-taxable equivalent net interest income plus non-interest income. Operating expenses exclude items from non-interest expense that management believes are not comparable among the periods presented. Non-interest income is also adjusted to exclude items that management believes are not comparable among the periods presented. Efficiency ratio is used as a method for management to assess its operating expense level and to compare to financial institutions of varying sizes.

Management believes the use of non-GAAP measures will help readers compare National Penn’s current results to those of prior periods as presented in the accompanying Financial Highlights and financial data tables.

#### Cautionary Statement Regarding Forward-Looking Information

This release contains forward-looking information about National Penn Bancshares, Inc. that is intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical facts. These statements can be identified by the use of forward-looking terminology such as “believe,” “expect,” “may,” “will,” “should,” “project,” “could,” “plan,” “goal,” “potential,” “seek,” “intend,” or “anticipate” or the negative thereof or comparable terminology, and include discussions of strategy, financial projections, guidance and estimates (including their underlying assumptions), statements regarding plans, objectives, expectations or consequences of announced transactions, and statements about the future performance, operations, products and services of National Penn and its subsidiaries. National Penn cautions readers not to place undue reliance on these statements.

National Penn’s business and operations are subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following: difficult conditions in the capital markets and the economy generally, regulatory requirements or other actions mandated by National Penn’s regulators, recent and ongoing changes to the state and federal regulatory schemes under which National Penn and other financial services companies operate (including the Dodd-Frank Act and regulations adopted



or to be adopted to implement that Act), delayed improvement in the credit quality of loans, the effect of credit risk exposure, the ability to strategically manage our capital position and to raise capital, allowance for loan losses may prove inadequate, variations in interest rates, unanticipated costs from our corporate relocation plan, the geographic concentration of National Penn's operations, declines in the value of National Penn's assets and the effect of any resulting impairment charges, competition for personnel and from other financial institutions, interruptions or breaches of National Penn's security systems, the development and maintenance of National Penn's information technology, potential dilution of National Penn's shareholders, the ability of National Penn and its subsidiaries to pay dividends, severe weather and natural disasters, and the nature and frequency of litigation and other similar proceedings to which National Penn may be a party. Additional risks, uncertainties and other factors relating to the proposed acquisition of TF Financial Corporation include, but are not limited to: expected benefits may not materialize in the timeframe expected or at all, or may be more costly to achieve; the transaction may not be timely completed, if at all; the parties are unable to successfully implement integration strategies; and diversion of management time on merger-related issues. These risks and others are described in greater detail in National Penn's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as well as in National Penn's Quarterly Reports on Form 10-Q and other documents filed by National Penn with the SEC after the date thereof. National Penn makes no commitment to revise or update any forward-looking statements in order to reflect events or circumstances occurring or existing after the date any forward-looking statement is made.

**Additional Information About the Merger and Where to Find It:**

In connection with the proposed merger transaction, National Penn has filed with the Securities and Exchange Commission a Registration Statement on Form S-4 that includes a Proxy Statement of TF Financial Corporation and a Prospectus of National Penn as well as other relevant documents concerning the proposed transaction. Shareholders are urged to read the Registration Statement and the Proxy Statement/Prospectus regarding the merger and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information.

A free copy of the Proxy Statement/Prospectus, as well as other filings containing information about National Penn and TF Financial Corporation, may be obtained at the SEC's Internet site (<http://www.sec.gov>). You will also be able to obtain these documents, free of charge, from National Penn at [www.nationalpennbancshares.com](http://www.nationalpennbancshares.com) under the heading "Documents/SEC Filings" or from TF Financial Corporation by accessing TF Financial Corporation's website at [www.3rdfedbank.com](http://www.3rdfedbank.com) under the section "Investor Relations" and under the heading "SEC Filings."

National Penn and TF Financial Corporation and certain of their directors and executive officers may be deemed to be participants in the solicitation of proxies from the shareholders of TF Financial Corporation in connection with the proposed merger. Information about the directors and executive officers of National Penn is set forth in the proxy statement for National Penn's 2014 annual meeting of shareholders, as filed with the SEC on a Schedule 14A on March 12, 2014. Information about the directors and executive officers of TF Financial Corporation is set forth in the proxy statement for TF Financial Corporation's 2014 annual meeting of shareholders, as filed with the SEC on a Schedule 14A on March 26, 2014. Additional information regarding the interests of those participants and other persons who may be deemed participants in the transaction may be obtained by reading the Proxy Statement/Prospectus regarding the proposed merger when it becomes available. Free copies of this document may be obtained as described in the preceding paragraph.

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PER SHARE

Basic earnings	\$0.19	\$0.16	\$0.17	\$0.35	\$0.05
Diluted earnings	0.19	0.16	0.17	0.35	0.05
Dividends	0.10	0.10	0.10	0.20	0.10 (a)
Average shares - basic	139,191,923	141,360,180	145,580,155	140,270,062	145,488,073
Average shares - diluted	139,719,980	141,877,066	145,997,009	140,792,564	145,900,726

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## (1) RECONCILIATION TABLES FOR NON-GAAP FINANCIAL MEASURES

	Three Months Ended			Six Months Ended		
	6/30/2014	3/31/2014	6/30/2013	6/30/2014	6/30/2013	
Return on average tangible common equity						
Return on average shareholders' equity	9.67	% 8.42	% 8.82	% 9.04	% 1.35	%
Effect of goodwill and intangibles	3.10	% 2.69	% 2.71	% 2.90	% 0.41	%
Return on average tangible common equity	12.77	% 11.11	% 11.53	% 11.94	% 1.76	%
Average tangible equity						
Average shareholders' equity	\$ 1,087,204	\$ 1,093,797	1,137,659	\$ 1,090,482	\$ 1,140,230	
Average goodwill and intangibles	(264,082 )	(264,775 )	\$(267,264 )	(264,426 )	(267,797 )	
Average tangible common equity	\$823,122	\$829,022	\$870,395	\$826,056	\$872,433	
Adjusted net income reconciliation						
Net income	\$26,199	\$22,710	25,019	\$48,909	\$7,615	
After tax unrealized fair value gain on subordinated debentures	—	—	—	—	(1,372 )	
After tax loss on debt extinguishment	—	—	—	—	42,177	
Adjusted net income	\$26,199	\$22,710	\$25,019	\$48,909	\$48,420	
Earnings per share						
Net income	\$0.19	\$0.16	\$0.17	\$0.35	\$0.05	
After tax unrealized fair value gain on subordinated debentures	—	—	—	—	(0.01 )	
After tax loss on debt extinguishment	—	—	—	—	0.29	
Adjusted net income	\$0.19	\$0.16	\$0.17	\$0.35	\$0.33	

(a) In lieu of a 1st quarter 2013 cash dividend, the Company paid an additional dividend of \$0.10 per share in the fourth quarter of 2012



Financial Update for National Penn Bancshares, Inc. (NPBC) for  
6/30/2014

Unaudited, dollars in thousands except share and per share data	As of				
	6/30/2014	3/31/2014	12/31/2013	9/30/2013	6/30/2013
<b>ASSETS</b>					
Cash and due from banks	\$ 138,530	\$ 128,991	\$ 102,241	\$ 137,795	\$ 118,575
Interest-earning deposits with banks	73,384	55,335	181,282	78,895	63,193
Total cash and cash equivalents	211,914	184,326	283,523	216,690	181,768
Investment securities available-for-sale, at fair value	1,463,479	1,442,304	1,894,107	1,875,676	1,799,831
Investment securities held-to-maturity	892,536	918,340	438,445	444,898	452,275
Other securities	64,494	63,760	63,746	44,107	61,252
Loans held-for-sale	2,275	5,171	4,951	2,752	12,289
Loans	5,403,756	5,372,556	5,333,268	5,279,939	5,249,007
Allowance for loan losses	(89,848 )	(93,252 )	(96,367 )	(100,763 )	(104,533 )
Loans, net	5,313,908	5,279,304	5,236,901	5,179,176	5,144,474
Premises and equipment, net	110,972	97,707	96,232	93,871	94,673
Accrued interest receivable	26,953	27,408	27,130	27,831	28,453
Bank owned life insurance	150,237	149,045	147,869	146,906	145,670
Other real estate owned and other repossessed assets	1,758	2,138	1,278	1,569	1,899
Goodwill	258,279	258,279	258,279	258,279	258,279
Other intangible assets, net	5,476	6,156	6,854	7,656	8,470
Unconsolidated investments	8,205	8,214	8,713	9,177	8,673
Other assets	107,887	115,229	123,820	116,035	118,579
<b>TOTAL ASSETS</b>	<b>\$8,618,373</b>	<b>\$8,557,381</b>	<b>\$8,591,848</b>	<b>\$8,424,623</b>	<b>\$8,316,585</b>
<b>LIABILITIES</b>					
Non-interest bearing deposits	\$ 1,031,271	\$ 1,028,572	\$ 970,051	\$ 1,026,546	\$ 942,127
Interest bearing deposits	5,077,212	5,110,852	5,102,527	5,408,910	5,080,336
Total deposits	6,108,483	6,139,424	6,072,578	6,435,456	6,022,463
Customer repurchase agreements	587,686	561,170	551,736	521,779	547,736
Repurchase agreements	50,000	50,000	50,000	50,000	50,000
Federal Home Loan Bank advances	601,246	557,434	603,232	112,406	414,142
Subordinated debentures	77,321	77,321	77,321	77,321	77,321
Accrued interest payable and other liabilities	92,229	89,583	105,115	96,383	89,165
<b>TOTAL LIABILITIES</b>	<b>7,516,965</b>	<b>7,474,932</b>	<b>7,459,982</b>	<b>7,293,345</b>	<b>7,200,827</b>
<b>SHAREHOLDERS' EQUITY</b>					
Common stock	1,387,304	1,386,265	1,387,966	1,387,052	1,386,178
Accumulated deficit	(154,909 )	(167,191 )	(175,990 )	(182,628 )	(192,623 )
Accumulated other comprehensive loss	(474 )	(5,295 )	(21,157 )	(13,504 )	(17,189 )
Treasury stock	(130,513 )	(131,330 )	(58,953 )	(59,642 )	(60,608 )

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TOTAL SHAREHOLDERS' EQUITY	1,101,408	1,082,449	1,131,866	1,131,278	1,115,758
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$8,618,373	\$8,557,381	\$8,591,848	\$8,424,623	\$8,316,585

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## PER SHARE DATA

Book value	\$7.91	\$7.78	\$7.76	\$7.76	\$7.66
Tangible book value (2)	\$6.02	\$5.88	\$5.94	\$5.94	\$5.83
Dividends - quarterly	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10
Shares outstanding (end of period, net of treasury)	139,240,318	139,145,669	145,798,751	145,723,276	145,608,945

## (2) RECONCILIATION TABLE FOR NON-GAAP FINANCIAL MEASURES

Total shareholders' equity	\$1,101,408	\$1,082,449	\$1,131,866	\$1,131,278	\$1,115,758
Goodwill and intangibles	(263,755 )	(264,435 )	(265,133 )	(265,935 )	(266,749 )
Tangible common equity	\$837,653	\$818,014	\$866,733	\$865,343	\$849,009
Shares outstanding	139,240,318	139,145,669	145,798,751	145,723,276	145,608,945
Tangible book value per share	\$6.02	\$5.88	\$5.94	\$5.94	\$5.83
Total assets	\$8,618,373	\$8,557,381	\$8,591,848	\$8,424,623	\$8,316,585
Goodwill and intangibles	(263,755 )	(264,435 )	(265,133 )	(265,935 )	(266,749 )
Tangible assets	\$8,354,618	\$8,292,946	\$8,326,715	\$8,158,688	\$8,049,836
Tangible common equity/tangible assets	10.03	% 9.86	% 10.41	% 10.61	% 10.55

## (3) RECONCILIATION TABLE FOR NON-GAAP FINANCIAL MEASURES

Adjusted net income (1)	\$26,199	\$22,710	\$25,112	\$24,560	\$25,019
Average assets	\$8,512,845	\$8,479,686	\$8,385,094	\$8,310,626	\$8,326,499
Adjusted return on average assets (annualized)	1.23	% 1.09	% 1.19	% 1.17	% 1.21

Financial Update for National Penn Bancshares, Inc. (NPBC) for  
6/30/2014

Unaudited, dollars in thousands except share and per share data

	For the Quarter Ended					For the Six Months Ended	
	6/30/2014	3/31/2014	12/31/2013	9/30/2013	6/30/2013	6/30/2014	6/30/2013
INTEREST INCOME							