

BRYN MAWR BANK CORP  
Form 10-K  
March 14, 2014  
Table of Contents

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**Form 10-K**

**(Mark One)**

**ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2013**

**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 001-35746.**

**BRYN MAWR BANK CORPORATION**

**(Exact name of registrant as specified in its charter)**

**Pennsylvania**  
**(State of other jurisdiction of**

**23-2434506**  
**(I.R.S. Employer**  
**Identification Number)**

**Incorporation or Organization)**

**801 Lancaster Avenue, Bryn Mawr, Pennsylvania**  
**(Address of principal executive offices)**

**19010**  
**(Zip Code)**

**(Registrant's telephone number, including area code) (610) 525-1700**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock (\$1 par value)</b>	<b>The Nasdaq Stock Market LLC</b>

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (& 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company   
Indicate by checkmark whether the Registrant is a shell company (as defined by Rule 126-2 of the Exchange Act): Yes  No

The aggregate market value of shares of common stock held by non-affiliates of Registrant (including fiduciary accounts administered by affiliates) was \$313,375,052 on June 30, 2013 based on the price at which our common stock was last sold on that date.\*

As of March 3, 2014, there were 13,651,239 shares of common stock outstanding.

Documents Incorporated by Reference: Portions of the Definitive Proxy Statement of Registrant to be filed with the Commission pursuant to Regulation 14A with respect to the Registrant's Annual Meeting of Shareholders to be held on April 30, 2014 ( 2014 Proxy Statement ), as indicated, are incorporated by reference in Part III hereof.

\*Registrant does not admit by virtue of the foregoing that its officers and directors are affiliates as defined in Rule 405.

**Table of Contents**

**Form 10-K**

**Bryn Mawr Bank Corporation**

**Index**

<b>Item No.</b>		<b>Page</b>
	Part I	
1.	<u>Business</u>	1
1A.	<u>Risk Factors</u>	13
1B.	<u>Unresolved Staff Comments</u>	23
2.	<u>Properties</u>	23
3.	<u>Legal Proceedings</u>	25
4.	<u>Mine Safety Disclosures</u>	25
	Part II	
5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	26
6.	<u>Selected Financial Data</u>	28
7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&amp;A)</u>	29
7A.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	62
8.	<u>Financial Statements and Supplementary Data</u>	63
9.	<u>Change in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	125
9A.	<u>Controls and Procedures</u>	125
9B.	<u>Other Information</u>	127
	Part III	
10.	<u>Directors and Executive Officers of the Registrant</u>	128
11.	<u>Executive Compensation</u>	128
12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	128
13.	<u>Certain Relationships and Related Transactions</u>	129
14.	<u>Principal Accountant Fees and Services</u>	129
	Part IV	
15.	<u>Exhibits and Financial Statement Schedules</u>	130

---

**Table of Contents**

***SPECIAL CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS***

*Certain of the statements contained in this report and the documents incorporated by reference herein may constitute forward-looking statements for the purposes of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended, and may involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Bryn Mawr Bank Corporation (the Corporation) to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements include statements with respect to the Corporation's financial goals, business plans, business prospects, credit quality, credit risk, reserve adequacy, liquidity, origination and sale of residential mortgage loans, mortgage servicing rights, the effect of changes in accounting standards, and market and pricing trends loss. The words *may*, *would*, *could*, *will*, *likely*, *expect*, *anticipate*, *intend*, *estimate*, *plan*, *forecast*, *project* and *believe* and similar expressions are intended to identify such forward-looking statements. The Corporation's actual results may differ materially from the results anticipated by the forward-looking statements due to a variety of factors, including without limitation:*

*the effect of future economic conditions on the Corporation and its customers, including economic factors which affect consumer confidence in the securities markets, wealth creation, investment and savings patterns, the real estate market, and the Corporation's interest rate risk exposure and credit risk;*

*changes in the securities markets with respect to the market values of financial assets and the stability of particular securities markets;*

*governmental monetary and fiscal policies, as well as legislation and regulatory changes;*

*results of examinations by the Federal Reserve Board, including the possibility that the Federal Reserve Board may, among other things, require us to increase our allowance for loan losses or to write down assets;*

*changes in accounting requirements or interpretations;*

*changes in existing statutes, regulatory guidance, legislation or judicial decisions that adversely affect our business, including changes in federal income tax or other tax regulations;*

*the risks of changes in interest rates on the level and composition of deposits, loan demand, and the value of loan collateral and securities, as well as interest rate risk;*

*the effects of competition from other commercial banks, thrifts, mortgage companies, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money-market and mutual funds and other institutions operating in the Corporation's trade market area and elsewhere including institutions*

*operating locally, regionally, nationally and internationally and such competitors offering banking products and services by mail, telephone, computer and the Internet;*

*any extraordinary events (such as the September 11, 2001 events, the war on terrorism and the U.S. Government's response to those events, including the wars in Iraq and Afghanistan);*

*the Corporation's need for capital;*

*the Corporation's success in continuing to generate new business in its existing markets, as well as its success in identifying and penetrating targeted markets and generating a profit in those markets in a reasonable time;*

*the Corporation's ability to continue to generate investment results for customers and the ability to continue to develop investment products in a manner that meets customers needs;*

*changes in consumer and business spending, borrowing and savings habits and demand for financial services in our investment products in a manner that meets customers' needs;*

*the Corporation's timely development of competitive new products and services in a changing environment and the acceptance of such products and services by customers;*

*the Corporation's ability to originate, sell and service residential mortgage loans;*

**Table of Contents**

*the accuracy of assumptions underlying the establishment of reserves for loan losses and estimates in the value of collateral, the market value of mortgage servicing rights and various financial assets and liabilities;*

*the Corporation's ability to retain key members of the senior management team;*

*the ability of key third-party providers to perform their obligations to the Corporation and the Bank;*

*technological changes being more difficult or expensive than anticipated;*

*the Corporation's success in managing the risks involved in the foregoing.*

*All written or oral forward-looking statements attributed to the Corporation are expressly qualified in their entirety by use of the foregoing cautionary statements. All forward-looking statements included in this Report and the documents incorporated by reference herein are based upon the Corporation's beliefs and assumptions as of the date of this Report. The Corporation assumes no obligation to update any forward-looking statement. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this Report or incorporated documents might not occur and you should not put undue reliance on any forward-looking statements.*

**Table of Contents**

**PART I**

**ITEM 1. BUSINESS**  
**GENERAL**

The Bryn Mawr Trust Company (the Bank ) received its Pennsylvania banking charter in 1889 and is a member of the Federal Reserve System. In 1986, Bryn Mawr Bank Corporation (the Corporation ) was formed and on January 2, 1987, the Bank became a wholly-owned subsidiary of the Corporation. The Bank and Corporation are headquartered in Bryn Mawr, Pennsylvania, a western suburb of Philadelphia. The Corporation and its subsidiaries offer a full range of personal and business banking services, consumer and commercial loans, equipment leasing, mortgages, insurance and wealth management services, including investment management, trust and estate administration, retirement planning, custody services, and tax planning and preparation from 19 full-service branches, seven Life Care Community offices, and five wealth offices throughout Montgomery, Delaware, Chester and Dauphin counties of Pennsylvania and New Castle county in Delaware. The Corporation's common stock trades on the NASDAQ Stock Market ( NASDAQ ) under the symbol BMTC.

The goal of the Corporation is to become the preeminent community bank and wealth management organization in the Philadelphia area.

The Corporation operates in a highly competitive market area that includes local, national and regional banks as competitors along with savings banks, credit unions, insurance companies, trust companies, registered investment advisors and mutual fund families. The Corporation and its subsidiaries are regulated by many agencies, including the Securities and Exchange Commission ( SEC ), Federal Deposit Insurance Corporation ( FDIC ), the Federal Reserve and the Pennsylvania and Delaware Departments of Banking.

**WEBSITE DISCLOSURES**

The Corporation makes available, free of charge, through its website, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after the reports are electronically filed with the SEC. These reports can be obtained on the Corporation's website at [www.bmtc.com](http://www.bmtc.com) by following the link, About Us, followed by Investor Relations. The information contained on or connected to our website is not incorporated by reference into this Annual Report on Form 10-K. Further copies of these reports are located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding our filings, at [www.sec.gov](http://www.sec.gov).

**OPERATIONS**

**Bryn Mawr Bank Corporation**

The Corporation has no active staff as of December 31, 2013. The Corporation holds the stock of the Bank. Additionally, the Corporation performs several functions including shareholder communications, shareholder recordkeeping, the distribution of dividends and the periodic filing of reports and payment of fees to NASDAQ, the SEC and other regulatory agencies.



As of December 31, 2013, the Corporation and its subsidiaries had 394 full time and 38 part time employees, totaling 413 full time equivalent staff.

**Table of Contents**

**ACTIVE SUBSIDIARIES OF THE CORPORATION**

The Corporation has three active subsidiaries which provide various services as described below:

**Lau Associates**

Lau Associates LLC is a nationally recognized independent, family wealth office serving high net worth individuals and families, with special expertise in planning intergenerational inherited wealth. Lau Associates employed thirteen full time employees as of December 31, 2013, and are included in the Corporation's employment numbers. Lau Associates LLC is a wholly-owned subsidiary of the Corporation.

**The Bryn Mawr Trust Company of Delaware**

The Bryn Mawr Trust Company of Delaware ( BMTC-DE ) is a limited purpose trust company located in Greenville, DE and has the ability to be named and serve as a corporate fiduciary under Delaware law. BMTC-DE employed three full-time and two part time employees as of December 31, 2013. BMTC-DE employees are included in the Corporation's employment numbers. Being able to serve as a corporate fiduciary under Delaware law is advantageous as Delaware statutes are widely recognized as being favorable with respect to the creation of tax-advantaged trust structures, LLCs and related wealth transfer vehicles for families and individuals throughout the United States. BMTC-DE is a wholly-owned subsidiary of the Corporation.

**The Bryn Mawr Trust Company**

The Bank is engaged in commercial and retail banking business, providing basic banking services, including the acceptance of demand, time and savings deposits and the origination of commercial, real estate and consumer loans and other extensions of credit including leases. The Bank also provides a full range of wealth management services including trust administration and other related fiduciary services, custody services, investment management and advisory services, employee benefit account and IRA administration, estate settlement, tax services, financial planning and brokerage services. As of December 31, 2013, the market value of assets under management, administration, supervision and asset management/ brokerage by the Bank's Wealth Management Division was \$7.268 billion.

The Bank presently has 19 full-service branch offices and seven Life Care Community locations. See the section titled COMPETITION later in this item for additional information.

**ACTIVE SUBSIDIARIES OF THE BANK**

The Bank has four active subsidiaries providing various services as described below:

**Insurance Counsellors of Bryn Mawr, Inc.**

Insurance Counsellors of Bryn Mawr, Inc. ( ICBM ) is a wholly-owned subsidiary of the Bank. ICBM is a full-service insurance agency, through which the Bank offers insurance and related products and services to its customer base. This includes casualty, property and allied insurance lines, as well as life insurance, annuities, medical insurance and accident and health insurance for groups and individuals.

ICBM utilizes six licensed insurance agents and ICBM employees are included in the Corporation's employment numbers above.

**BMT Settlement Services, Inc.**

BMT Settlement Services, Inc. ( BMTS ) is a limited partner in Bryn Mawr Settlement Services, LP (the Limited Partnership ), with Commonwealth Land Transfer Company, to provide title search and abstract services to Bank customers. Under the terms of the Limited Partnership's partnership agreement, BMTS receives seventy percent of the profits of the Limited Partnership, after expenses. BMTS is a wholly-owned subsidiary of the Bank.

**Table of Contents**

BMTS's primary market area is located in southeastern Pennsylvania. BMTS is housed in the main office of the Bank, located at 801 Lancaster Avenue, Bryn Mawr, PA 19010. BMTS had no employees as of December 31, 2013.

**BMT Mortgage Services, Inc.**

As of September 30, 2013, BMT Mortgage Services, Inc. ( BMTM ) became an inactive subsidiary of the Corporation. BMTM is a member in BMT Mortgage Company, LLC, which provides mortgage services to customers of the Keller Williams Bryn Mawr, PA office. Under the terms of the operating agreement, BMTM has a 40% interest in BMT Mortgage Company, LLC, performed certain accounting and administrative functions, and processed certain mortgage applications for a fee. BMTM is a wholly-owned subsidiary of the Bank.

**Bryn Mawr Equipment Finance, Inc.**

Bryn Mawr Equipment Finance, Inc. ( BMEF ) is a Delaware corporation registered to do business in Pennsylvania. BMEF is a small-ticket equipment financing company servicing customers nationwide from its Bryn Mawr location. BMEF is a wholly-owned subsidiary of the Bank and had eight employees as of December 31, 2013. BMEF employees are included in the Corporation's employment numbers above.

**BUSINESS COMBINATIONS**

The Corporation and its subsidiaries engaged in the following business combinations since January 1, 2009

**First Bank of Delaware**

On November 17, 2012 the Corporation acquired \$70.3 million of deposits, \$76.6 million of loans and a branch location from First Bank of Delaware ( FBD ). The cash consideration paid by the Corporation was \$10.6 million.

**Davidson Trust Company**

On May 25, 2012, the Corporation acquired the Davidson Trust Company ( DTC ) for cash and contingent cash consideration of \$10.5 million. The acquisition of DTC increased the Corporation's wealth management assets under management by approximately \$1.0 billion.

**Private Wealth Management Group of the Hershey Trust Company**

On May 27, 2011, the Corporation acquired the Private Wealth Management Group of the Hershey Trust Company ( PWMG ) for stock, cash and contingent cash consideration of \$18.4 million. The acquisition of DTC increased the Corporation's wealth management assets under management by approximately \$1.1 billion.

**First Keystone Financial Inc.**

On July 1, 2010, the merger of First Keystone Financial, Inc. ( FKF ) with and into the Corporation and the two step merger of FKF s wholly-owned subsidiary, First Keystone Bank with and into the Bank, were completed. The 85% stock and 15% cash transaction was valued at \$31.3 million and increased the assets of the Corporation by \$490 million.

## **SOURCES OF THE CORPORATION S REVENUE**

### **Continuing Operations**

See Note 28, Segment Information, in the Notes to the Consolidated Financial Statements located in this Annual Report on Form 10-K for additional information. The Corporation had no discontinued operations in 2011, 2012 or 2013.

**Table of Contents**

**FINANCIAL INFORMATION ABOUT SEGMENTS**

The financial information concerning the Corporation's business segments is incorporated by reference to this Annual Report on Form 10-K in the section captioned Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) and Note 28, Segment Information in the Notes to Consolidated Financial Statements.

**COMPETITION**

The Corporation and its subsidiaries, including the Bank, compete for deposits, loans and wealth management services in Delaware, Montgomery, Chester, Dauphin and Philadelphia counties in Pennsylvania and New Castle county in Delaware. The Corporation has a significant presence in the affluent Philadelphia suburbs along the Route 30 corridor, also known as the Main Line . The Corporation has 19 full-service branches and seven Life Care Community offices.

The markets in which the Corporation competes are highly competitive. The Corporation's direct competition in attracting deposits, loans and wealth management services come from commercial banks, investment management companies, savings and loan associations, and trust companies. The Corporation also competes with credit unions, on-line banking enterprises, consumer finance companies, mortgage companies, insurance companies, stock brokerage companies, investment advisory companies and other entities providing one or more of the services and products offered by the Corporation.

The Corporation is able to compete with the other firms because of its consistent level of customer service, excellent reputation, professional expertise, full product line, and its competitive rates and fees. However, there are several negative factors relative to the Corporation's ability to compete with large institutions such as its limited number of locations, smaller advertising budget, lower technology budget, ability to spread out fixed costs and other lack-of-scale type disadvantages.

The acquisition of Lau Associates in July 2008 and the formation of BMTC-DE allowed the Corporation to establish a presence in the State of Delaware, where it competes for wealth management business. The November 2012 acquisition of certain loan and deposit accounts and a branch location from First Bank of Delaware enabled the Corporation to further expand its banking segment in the state of Delaware by establishing a full-service branch along the Route 202 corridor.

The acquisition of FKF in 2010 expanded the Corporation's footprint significantly into Delaware County, Pennsylvania, and the acquisition of PWMG in 2011 enabled the Wealth Management Division to extend into central Pennsylvania by continuing to operate the former PWMG offices located in Hershey, Pennsylvania. The May 2012 acquisition of DTC allowed the Corporation to further expand its range of services and bring deeper market penetration in our core market area.

In addition, BMEF competes on a national level for its leasing customers.

**FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS**

The geographic information required by Item 101(d) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended, is impracticable for the Corporation to calculate; however, the Corporation does not believe that a material amount of revenues in any of the last three years was attributable to customers outside of the United States, nor does it believe that a material amount of its long-lived assets, in any of the past three years, was located outside of the United States.



**Table of Contents**

**SUPERVISION AND REGULATION**

The Corporation and its subsidiaries, including the Bank, are subject to extensive regulation under both federal and state law. To the extent that the following information describes statutory provisions and regulations which apply to the Corporation and its subsidiaries, it is qualified in its entirety by reference to those statutory provisions and regulations:

**Bank Holding Company Regulation**

The Corporation, as a bank holding company, is regulated under the Bank Holding Company Act of 1956, as amended (the Act). The Act limits the business of bank holding companies to banking, managing or controlling banks, performing certain servicing activities for subsidiaries and engaging in such other activities as the Federal Reserve Board may determine to be closely related to banking. The Corporation and its non-bank subsidiaries are subject to the supervision of the Federal Reserve Board and the Corporation is required to file, with the Federal Reserve Board, an annual report and such additional information as the Federal Reserve Board may require pursuant to the Act and the regulations which implement the Act. The Federal Reserve Board also conducts inspections of the Corporation and each of its non-banking subsidiaries.

The Act requires each bank holding company to obtain prior approval by the Federal Reserve Board before it may acquire (i) direct or indirect ownership or control of more than 5% of the voting shares of any company, including another bank holding company or a bank, unless it already owns a majority of such voting shares, or (ii) all, or substantially all, of the assets of any company.

The Act also prohibits a bank holding company from engaging in, or from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company engaged in non-banking activities unless the Federal Reserve Board, by order or regulation, has found such activities to be so closely related to banking or to managing or controlling banks as to be appropriate. The Federal Reserve Board has, by regulation, determined that certain activities are so closely related to banking or to managing or controlling banks, so as to permit bank holding companies, such as the Corporation, and its subsidiaries formed for such purposes, to engage in such activities, subject to obtaining the Federal Reserve Board's approval in certain cases.

Under the Act, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension or provision of credit, lease or sale of property or furnishing any service to a customer on the condition that the customer provide additional credit or service to the bank, to its bank holding company or any other subsidiaries of its bank holding company or on the condition that the customer refrain from obtaining credit or service from a competitor of its bank holding company. Further, the Bank, as a subsidiary bank of a bank holding company, such as the Corporation, is subject to certain restrictions on any extensions of credit it provides to the Corporation or any of its non-bank subsidiaries, investments in the stock or securities thereof, and on the taking of such stock or securities as collateral for loans to any borrower.

In addition, the Federal Reserve Board may issue cease-and-desist orders against bank holding companies and non-bank subsidiaries to stop actions believed to present a serious threat to a subsidiary bank. The Federal Reserve Board also regulates certain debt obligations and changes in control of bank holding companies.

Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to each of its subsidiary banks and to commit resources, including capital funds during periods of financial stress, to support each such bank. Consistent with its source of strength policy for subsidiary banks, the Federal Reserve Board



has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fund fully the dividends, and the prospective rate of earnings retention appears to be consistent with the company's capital needs, asset quality and overall financial condition.

Federal law also grants to federal banking agencies the power to issue cease and desist orders when a depository institution or a bank holding company or an officer or director thereof is engaged in or is about to

## **Table of Contents**

engage in unsafe and unsound practices. The Federal Reserve Board may require a bank holding company, such as the Corporation, to discontinue certain of its activities or activities of its other subsidiaries, other than the Bank, or divest itself of such subsidiaries if such activities cause serious risk to the Bank and are inconsistent with the Bank Holding Company Act or other applicable federal banking laws.

### **Federal Reserve Board and Pennsylvania Department of Banking and Securities Regulations**

The Corporation's Pennsylvania state chartered bank, The Bryn Mawr Trust Company, is regulated and supervised by the Pennsylvania Department of Banking and Securities (the Department of Banking) and subject to regulation by The Federal Reserve Board and the FDIC. The Department of Banking and the Federal Reserve Board regularly examine the Bank's reserves, loans, investments, management practices and other aspects of its operations and the Bank must furnish periodic reports to these agencies. The Bank is a member of the Federal Reserve System.

The Bank's operations are subject to certain requirements and restrictions under federal and state laws, including requirements to maintain reserves against deposits, limitations on the interest rates that may be paid on certain types of deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, limitations on the types of investments that may be made and the types of services which may be offered. Various consumer laws and regulations also affect the operations of the Bank. These regulations and laws are intended primarily for the protection of the Bank's depositors and customers rather than holders of the Corporation's stock.

The regulations of the Department of Banking restrict the amount of dividends that can be paid to the Corporation by the Bank. Payment of dividends is restricted to the amount of the Bank's 2014 net income plus its net retained earnings for the previous two years. As of December 31, 2013, this amount was approximately \$24.8 million plus net income to be earned in 2014. However, the amount of dividends paid by the Bank cannot reduce capital levels below levels that would cause the Bank to be less than adequately capitalized. The payment of dividends by the Bank to the Corporation is the source on which the Corporation currently depends to pay dividends to its shareholders.

As a bank incorporated under and subject to Pennsylvania banking laws and insured by the FDIC, the Bank must obtain the prior approval of the Department of Banking and the Federal Reserve Board before establishing a new branch banking office. Depending on the type of bank or financial institution, a merger of the Bank with another institution is subject to the prior approval of one or more of the following: the Department of Banking, the FDIC, the Federal Reserve Board and the Office of the Comptroller of the Currency and any other regulatory agencies having primary supervisory authority over any other party to the merger. An approval of a merger by the appropriate bank regulatory agency would depend upon several factors, including whether the merged institution is a federally insured state bank, a member of the Federal Reserve System, or a national bank. Additionally, any new branch expansion or merger must comply with branching restrictions provided by state law. The Pennsylvania Banking Code permits Pennsylvania banks to establish branches anywhere in the state.

On October 24, 2012, Pennsylvania enacted three new laws known as the Banking Law Modernization Package, all of which became effective on December 24, 2012. The intended goal of the new law, which applies to the Bank, is to modernize Pennsylvania's banking laws and to reduce regulatory burden at the state level where possible, given the increased regulatory demands at the federal level as described below.

The new law also permits banks to disclose formal enforcement actions initiated by the Department of Banking, clarifies that the Department of Banking has examination and enforcement authority over subsidiaries as well as affiliates of regulated banks and bolsters the Department of Banking's enforcement authority over its regulated institutions by clarifying its ability to remove directors, officers and employees from institutions for violations of laws

or orders or for any unsafe or unsound practice or breach of fiduciary duty. Changes to existing law also allow the Department of Banking to assess civil money penalties of up to \$25,000 per violation.

## **Table of Contents**

The new law also sets a new standard of care for bank officers and directors, applying the same standard that exists for non-banking corporations in Pennsylvania. The standard is one of performing duties in good faith, in a manner reasonably believed to be in the best interests of the institutions and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. Directors may rely in good faith on information, opinions and reports provided by officers, employees, attorneys, accountants, or committees of the board, and an officer may not be held liable simply because he or she served as an officer of the institution.

### **Deposit Insurance Assessments**

The deposits of the Bank are insured by the FDIC up to the limits set forth under applicable law and are subject to deposit insurance premium assessments. The FDIC imposes a risk based deposit premium assessment system, under which the amount of FDIC assessments paid by an individual insured depository institution, such as the Bank, is based on the level of risk incurred in its activities.

In addition to deposit insurance assessments, banks are subject to assessments to pay the interest on Financing Corporation bonds. The Financing Corporation was created by Congress to issue bonds to finance the resolution of failed thrift institutions. The FDIC sets the Financing Corporation assessment rate every quarter. The Financing Corporation assessment for the fourth quarter of 2013 was an annual rate of 0.64 basis points, which resulted in approximately \$112 thousand FICO assessment payment by the Bank in 2013.

### **Government Monetary Policies**

The monetary and fiscal policies of the Federal Reserve Board and the other regulatory agencies have had, and will probably continue to have, an important impact on the operating results of the Bank through their power to implement national monetary policy in order to, among other things, curb inflation or combat a recession. The monetary policies of the Federal Reserve Board may have a major effect upon the levels of the Bank's loans, investments and deposits through the Federal Reserve Board's open market operations in United States government securities, through its regulation of, among other things, the discount rate on borrowing of depository institutions, and the reserve requirements against depository institution deposits. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies.

The earnings of the Bank and, therefore, of the Corporation are affected by domestic economic conditions, particularly those conditions in the trade area as well as the monetary and fiscal policies of the United States government and its agencies.

### **Safety and Soundness**

The Federal Reserve Board also has authority to prohibit a bank holding company from engaging in any activity or transaction deemed by the Federal Reserve Board to be an unsafe or unsound practice. The payment of dividends could, depending upon the financial condition of the Bank or Corporation, be such an unsafe or unsound practice and the regulatory agencies have indicated their view that it generally would be an unsafe and unsound practice to pay dividends except out of current operating earnings. The ability of the Bank to pay dividends in the future is presently and could be further influenced, among other things, by applicable capital guidelines discussed below or by bank regulatory and supervisory policies. The ability of the Bank to make funds available to the Corporation is also subject to restrictions imposed by federal law. The amount of other payments by the Bank to the Corporation is subject to

review by regulatory authorities having appropriate authority over the Bank or Corporation and to certain legal limitations.

**Capital Adequacy**

Federal and state banking laws impose on banks certain minimum requirements for capital adequacy. Federal banking agencies have issued certain risk-based capital guidelines, and certain leverage requirements

---

**Table of Contents**

on member banks such as the Bank. By policy statement, the Banking Department also imposes those requirements on the Bank. Banking regulators have authority to require higher minimum capital ratios for an individual bank or bank holding company in view of its circumstances.

**Minimum Capital Ratios.** The risk-based guidelines require all banks to maintain two risk-weighted assets ratios. The first is a minimum ratio of total capital ( Tier 1 and Tier 2 capital) to risk-weighted assets equal to 8.00%; the second is a minimum ratio of Tier 1 capital to risk-weighted assets equal to 4.00%. Assets are assigned to five risk categories, with higher levels of capital being required for the categories perceived as representing greater risk. In making the calculation, certain intangible assets must be deducted from the capital base. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets.

The risk-based capital rules also account for interest rate risk. Institutions with interest rate risk exposure above a normal level would be required to hold extra capital in proportion to that risk. A bank's exposure to declines in the economic value of its capital due to changes in interest rates is a factor that the banking agencies will consider in evaluating a bank's capital adequacy. The rule does not codify an explicit minimum capital charge for interest rate risk. The Corporation currently monitors and manages its assets and liabilities for interest rate risk, and believes its interest rate risk practices are prudent and are in-line with industry standards. The Corporation is not aware of any new or proposed rules or standards relating to interest rate risk that would materially adversely affect our operations.

The leverage ratio rules require banks which are rated the highest in the composite areas of capital, asset quality, management, earnings, liquidity and sensitivity to market risk to maintain a ratio of Tier 1 capital to adjusted total assets (equal to the bank's average total assets as stated in its most recent quarterly Call Report filed with its primary federal banking regulator, minus end-of-quarter intangible assets that are deducted from Tier 1 capital) of not less than 3.00%. For banks which are not the most highly rated, the minimum leverage ratio will range from 4.00% to 5.00%, or higher at the discretion of the bank's primary federal regulator, and is required to be at a level commensurate with the nature of the level of risk of the bank's condition and activities.

For purposes of the capital requirements, Tier 1 or core capital is defined to include common stockholders' equity and certain noncumulative perpetual preferred stock and related surplus. Tier 2 or qualifying supplementary capital is defined to include a bank's allowance for loan and lease losses up to 1.25% of risk-weighted assets, plus certain types of preferred stock and related surplus, certain hybrid capital instruments and certain term subordinated debt instruments.

On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Corporation and the Bank. The FDIC and the OCC have subsequently approved these rules. The final rules were adopted following the issuance of proposed rules by the Federal Reserve in June 2012 and implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. Basel III refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include new risk-based capital and leverage ratios, which would be phased in from 2015 to 2019, and would refine the definition of what constitutes capital for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Corporation and the Bank under the final rules would be:

- (i) a new common equity Tier 1 capital ratio of 4.5%;
- (ii) a Tier 1 capital ratio of 6% (increased from 4%);
- (iii) a total capital ratio of 8% (unchanged from current rules); and
- (iv) a Tier 1 leverage ratio of 4% for all institutions.

## Table of Contents

The final rules also establish a capital conservation buffer above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital.

The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019:

(i) a common equity Tier 1 capital ratio of 7.0%;

(ii) a Tier 1 capital ratio of 8.5%; and

(iii) a total capital ratio of 10.5%.

Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Basel III provided discretion for regulators to impose an additional buffer, the countercyclical buffer, of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the final rules permit the countercyclical buffer to be applied only to advanced approach banks (i.e., banks with \$250 billion or more in total assets or \$10 billion or more in total foreign exposures), which currently excludes the Corporation and the Bank. The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than \$15 billion in total assets as of December 31, 2009 (which includes the Corporation) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

In addition, the final rules provide for smaller banking institutions (less than \$250 billion in consolidated assets) an opportunity to make a one-time election to opt out of including most elements of accumulated other comprehensive income in regulatory capital. Importantly, the opt-out excludes from regulatory capital not only unrealized gains and losses on available-for-sale debt securities, but also accumulated net gains and losses on cash-flow hedges and amounts attributable to defined benefit postretirement plans. The opt-out election must be elected on the first Call Report filed after January 1, 2015.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions take effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as well capitalized:

(i) a new common equity Tier 1 capital ratio of 6.5%;



(ii) a Tier 1 capital ratio of 8% (increased from 6%);

(iii) a total capital ratio of 10% (unchanged from current rules); and

(iv) a Tier 1 leverage ratio of 5% (increased from 4%).

The final rules set forth certain changes for the calculation of risk-weighted assets, which we will be required to utilize beginning January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses:

(i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act;

**Table of Contents**

(ii) revisions to recognition of credit risk mitigation;

(iii) rules for risk weighting of equity exposures and past due loans;

(iv) revised capital treatment for derivatives and repo-style transactions; and disclosure requirements for top-tier banking organizations with \$50 billion or more in total assets that are not subject to the advance approach rules that apply to banks with greater than \$250 billion in consolidated assets.

**Prompt Corrective Action**

Federal banking law mandates certain prompt corrective actions, which Federal banking agencies are required to take, and certain actions which they have discretion to take, based upon the capital category into which a Federally regulated depository institution falls. Regulations have been adopted by the Federal bank regulatory agencies setting forth detailed procedures and criteria for implementing prompt corrective action in the case of any institution that is not adequately capitalized. Under the rules, an institution will be deemed to be adequately capitalized or better if it exceeds the minimum Federal regulatory capital requirements. However, it will be deemed undercapitalized if it fails to meet the minimum capital requirements, significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0%, or a leverage ratio that is less than 3.0%, and critically undercapitalized if the institution has a ratio of tangible equity to total assets that is equal to or less than 2.0%. The rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by its holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on the payment of dividends, a limitation on asset growth and expansion, and in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain management fees to any controlling person. Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including increased reporting burdens and regulatory monitoring, a limitation on the institution's ability to make acquisitions, open new branch offices, or engage in new lines of business, obligations to raise additional capital, restrictions on transactions with affiliates, and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed to be critically undercapitalized and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership. The Bank is currently regarded as well capitalized for regulatory capital purposes. See Note 26 in the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for more information regarding the Bank's and Corporation's regulatory capital ratios.

**Gramm-Leach Bliley Act**

The Gramm-Leach-Bliley Act ( GLB Act ) repealed provisions of the Glass-Steagall Act, which prohibited commercial banks and securities firms from affiliating with each other and engaging in each other's businesses. Thus, many of the barriers prohibiting affiliations between commercial banks and securities firms have been eliminated.

The GLB Act amended the Glass-Steagall Act to allow new financial holding companies ( FHC ) to offer banking, insurance, securities and other financial products to consumers. Specifically, the GLB Act amends section 4 of the Act in order to provide for a framework for the engagement in new financial activities. A bank holding company may elect

to become a financial holding company if all its subsidiary depository institutions are well-capitalized and well-managed. If these requirements are met, a bank holding company may file a certification to that effect with the Federal Reserve Board and declare that it elects to become a FHC. After the certification and declaration is filed, the FHC may engage either de novo or through an acquisition in any activity that has been determined by the Federal Reserve Board to be financial in nature or incidental to such financial activity. Bank holding companies may engage in financial activities without prior notice to the Federal Reserve

## **Table of Contents**

Board if those activities qualify under the new list in section 4(k) of the Act. However, notice must be given to the Federal Reserve Board, within 30 days after the FHC has commenced one or more of the financial activities. The Corporation has not elected to become an FHC at this time.

Under the GLB Act, a bank subject to various requirements is permitted to engage through financial subsidiaries in certain financial activities permissible for affiliates of FHCs. However, to be able to engage in such activities a bank must continue to be well-capitalized and well-managed and receive at least a satisfactory rating in its most recent Community Reinvestment Act examination.

### **Community Reinvestment Act**

The Community Reinvestment Act requires banks to help serve the credit needs of their communities, including providing credit to low and moderate income individuals and areas. Should the Bank fail to serve adequately the communities it serves, potential penalties may include regulatory denials to expand branches, relocate, add subsidiaries and affiliates, expand into new financial activities and merge with or purchase other financial institutions.

### **Privacy of Consumer Financial Information**

The GLB Act also contains a provision designed to protect the privacy of each consumer's financial information in a financial institution. Pursuant to the requirements of the GLB Act, the financial institution regulators have promulgated final regulations intended to better protect the privacy of a consumer's financial information maintained in financial institutions. The regulations are designed to prevent financial institutions, such as the Bank, from disclosing a consumer's nonpublic personal information to third parties that are not affiliated with the financial institution.

However, financial institutions can share a customer's personal information or information about business and corporations with their affiliated companies. The regulations also provide that financial institutions can disclose nonpublic personal information to nonaffiliated third parties for marketing purposes but the financial institution must provide a description of its privacy policies to the consumers and give the consumers an opportunity to opt-out of such disclosure and, thus, prevent disclosure by the financial institution of the consumer's nonpublic personal information to nonaffiliated third parties.

These privacy regulations will affect how consumer's information is transmitted through diversified financial companies and conveyed to outside vendors. The Bank does not believe the privacy regulations will have a material adverse impact on its operations in the near term.

### **Consumer Protection Rules Sale of Insurance Products**

In addition, as mandated by the GLB Act, the regulators have published consumer protection rules which apply to the retail sales practices, solicitation, advertising or offers of insurance products, including annuities, by depository institutions such as banks and their subsidiaries.

The rules provide that before the sale of insurance or annuity products can be completed, disclosures must be made that state (i) such insurance products are not deposits or other obligations of or guaranteed by the FDIC or any other agency of the United States, the Bank or its affiliates; and (ii) in the case of an insurance product that involves an

investment risk, including an annuity, that there is an investment risk involved with the product, including a possible loss of value.

The rules also provide that the Bank may not condition an extension of credit on the consumer's purchase of an insurance product or annuity from the Bank or its affiliates or on the consumer's agreement not to obtain or a prohibition on the consumer obtaining an insurance product or annuity from an unaffiliated entity.

## **Table of Contents**

The rules also require formal acknowledgement from the consumer that such disclosures have been received. In addition, to the extent practical, the Bank must keep insurance and annuity sales activities physically separate from the areas where retail banking transactions are routinely accepted from the general public.

### **Sarbanes-Oxley Act**

The Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act ) addresses, among other matters, increased disclosures; audit committees; certification of financial statements by the principal executive officer and the principal financial officer; evaluation by management of our disclosure controls and procedures and our internal control over financial reporting; auditor reports on our internal control over financial reporting; forfeiture of bonuses and profits made by directors and senior officers in the twelve (12) month period covered by restated financial statements; a prohibition on insider trading during Corporation stock blackout periods; disclosure of off-balance sheet transactions; a prohibition applicable to companies, other than federally insured financial institutions, on personal loans to their directors and officers; expedited filing of reports concerning stock transactions by a company s directors and executive officers; the formation of a public accounting oversight board; auditor independence; and increased criminal penalties for violation of certain securities laws.

### **Patriot Act of 2001**

The Patriot Act of 2001, which was enacted in the wake of the September 11, 2001 attacks, includes provisions designed to combat international money laundering and advance the U.S. government s war against terrorism. The Patriot Act and the regulations which implement it contain many obligations which must be satisfied by financial institutions, including the Bank. Those regulations impose obligations on financial institutions, such as the Bank, to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. The failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious legal and reputational consequences for the financial institution.

### **Government Policies and Future Legislation**

As the enactment of the GLB Act and the Sarbanes-Oxley Act confirm, from time to time various laws are passed in the United States Congress as well as the Pennsylvania legislature and by various bank regulatory authorities which would alter the powers of, and place restrictions on, different types of banks and financial organizations. It is impossible to predict whether any potential legislation or regulations will be adopted and the impact, if any, of such adoption on the business of the Corporation or its subsidiaries, especially the Bank.

### **Dodd-Frank Wall Street Reform and Consumer Protection Act**

The federal government is considering a variety of reforms related to banking and the financial industry. Among those reforms is the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ), that was enacted by Congress on July 15, 2010, and was signed into law by President Obama on July 21, 2010. The Dodd-Frank Act is intended to promote financial stability in the U.S., reduce the risk of bailouts and protect against abusive financial services practices by improving accountability and transparency in the financial system and ending the concept of too big to fail institutions by giving regulators the ability to liquidate large financial institutions. It is the broadest overhaul

of the U.S. financial system since the Great Depression and the overall impact on the Corporation and its subsidiaries is unknown at this time.

The Dodd-Frank Act has significantly changed the current bank regulatory structure and will affect into the immediate future the lending and investment activities and general operations of depository institutions and their holding companies.

The Dodd-Frank Act requires the FRB to establish minimum consolidated capital requirements for bank holding companies that are as stringent as those required for insured depository institutions; the components of

---

**Table of Contents**

Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. In addition, the proceeds of trust preferred securities are excluded from Tier 1 capital unless (i) such securities are issued by bank holding companies with assets of less than \$500 million or (ii) such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than \$15 billion of assets.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with extensive powers to implement and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rulemaking authority for a wide range of consumer protection laws that apply to all banks, among other things, including the authority to prohibit unfair, deceptive or abusive acts and practices. However, institutions of less than \$10 billion in assets, such as the Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their prudential regulators.

The Dodd-Frank Act made many other changes in banking regulation. Those include allowing depository institutions, for the first time, to pay interest on business checking accounts, requiring originators of securitized loans to retain a percentage of the risk for transferred loans, establishing regulatory rate-setting for certain debit card interchange fees and establishing a number of reforms for mortgage originations. Effective October 1, 2011, the debit-card interchange fee was capped at \$0.21 per transaction, plus an additional 5 basis point charge to cover fraud losses. These fees are much lower than the current market rates. Although the regulation only impacts banks with assets above \$10.0 billion, we believe that the provisions could result in a reduction in interchange revenue in the future.

The Dodd-Frank Act also broadened the base for FDIC insurance assessments. The FDIC was required to promulgate rules revising its assessment system so that it is based on the average consolidated total assets less tangible equity capital of an insured institution instead of deposits. That rule took effect April 1, 2011. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008.

All of the provisions of the Dodd-Frank Act are not yet effective, and the Dodd-Frank Act requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. It is therefore difficult to predict at this time what impact the Dodd-Frank Act and implementing regulations will have on the Corporation and the Bank. The changes resulting from the Dodd-Frank Act could limit our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise materially and adversely affect us. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements could also materially and adversely affect us.

**ITEM 1A. RISK FACTORS**

Investment in the Corporation's common shares involves risk. The market price of the Corporation's common shares may fluctuate significantly in response to a number of factors including those that follow. The following list contains certain risks that may be unique to the Corporation and to the banking industry. The following list of risks should not be viewed as an all inclusive list or in any particular order.

*Increases in FDIC insurance premiums may adversely affect the Corporation's earnings*

In response to the impact of economic conditions since 2008 on banks generally and on the FDIC deposit insurance fund, the FDIC changed its risk-based assessment system and increased base assessment rates. On November 12, 2009, the FDIC adopted a rule requiring banks to prepay three years' worth of premiums to replenish the depleted



insurance fund. In February 2011, as required under the Dodd-Frank Act, the FDIC issued

## Table of Contents

a ruling pursuant to which the assessment base against which FDIC assessments for deposit insurance are made will change. Instead of FDIC insurance assessments being based upon an insured bank's deposits, FDIC insurance assessments are now generally based on an insured bank's total average assets minus average tangible equity. With this change, the Corporation expects that its overall FDIC insurance cost will decline. However, a change in the risk categories applicable to the Corporation's bank subsidiaries, further adjustments to base assessment rates and any special assessments could have a material adverse effect on the Corporation.

The Dodd-Frank Act also requires that the FDIC take steps necessary to increase the level of the Deposit Insurance Fund to 1.35% of total insured deposits by September 30, 2020. In October 2010, the FDIC adopted a Restoration Plan to achieve that goal. Certain elements of the Restoration Plan are left to future FDIC rulemaking, as are the potential for increases to the assessment rates, which may become necessary to achieve the targeted level of the DIF. Future FDIC rulemaking in this regard may have a material adverse effect on the Corporation.

### *Federal Home Loan Bank of Pittsburgh continues to monitor its financial performance*

On February 20, 2014, the FHLB declared a dividend equal to 2.50% annualized. In addition, the FHLB continues to repurchase excess capital stock from member banks. The FHLB continues to monitor its financial performance, retained earnings and other relevant information as a basis for determining future dividends and excess capital repurchases. As of December 31, 2013, the Corporation held \$11.7 million of FHLB capital stock.

### *The steadiness of other financial institutions could have detrimental effects on our routine funding transactions*

Routine funding transactions may be adversely affected by the actions and soundness of other financial institutions. Financial service institutions are interrelated as a result of trading, clearing, lending, borrowing or other relationships. Transactions are executed on a daily basis with different industries and counterparties, and routinely executed with counterparties in the financial services industry. As a result, a rumor, default or failures within the financial services industry could lead to market-wide liquidity problems which in turn could materially impact the financial condition of the Corporation.

### *Financial turmoil may increase our other-than-temporary-impairment ( OTTI ) charges*

If the Corporation incurs OTTI charges that result in its falling below the well capitalized regulatory requirement, the Corporation may need to raise additional capital.

### *The Corporation may need to raise additional capital in the future and such capital may not be available when needed or at all*

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations and may need to raise additional capital in the future to provide us with sufficient capital resources to meet our regulatory and business needs. We cannot assure you that such capital will be available to us on acceptable terms or at all. If the Corporation is unable to generate sufficient additional capital through its earnings, or other sources, it would be necessary to slow earning asset growth and or pass up possible acquisition opportunities, which may result in a reduction of future net income growth. Further, an inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition and results of operations.

### *If sufficient wholesale funding to support earning asset growth is unavailable, the Corporation's net income may decrease*

The Corporation recognizes the need to grow both wholesale and non-wholesale funding sources to support earning asset growth and to provide appropriate liquidity. The Corporation's asset growth over the past few years

**Table of Contents**

has been funded with various forms of wholesale funding which is defined as wholesale deposits (primarily certificates of deposit) and borrowed funds (FHLB advances, Federal advances and Federal fund line borrowings). Wholesale funding at December 31, 2013 represents approximately 16.3% of total funding compared to 12.1% at December 31, 2012 and 18.3% at December 31, 2011. Wholesale funding is subject to certain practical limits such as the FHLB's Maximum Borrowing Capacity and the Corporation's liquidity targets. Additionally, regulators might consider wholesale funding beyond certain points to be imprudent and might suggest that future asset growth be reduced or halted.

In the absence of wholesale funding sources, the Corporation might need to reduce earning asset growth through the reduction of current production, sale of assets, and/or the participating out of future and current loans or leases. This in turn might reduce future net income of the Corporation.

The amount loaned to us is generally dependent on the value of the collateral pledged and the Corporation's financial condition. These lenders could reduce the percentages loaned against various collateral categories, eliminate certain types of collateral and otherwise modify or even terminate their loan programs, particularly to the extent they are required to do so because of capital adequacy or other balance sheet concerns, or if disruptions in the capital markets occur. Any change or termination of our borrowings from the FHLB, the Federal Reserve or correspondent banks may have an adverse affect on our liquidity and profitability.

*The capital and credit markets are volatile and could cause the price of our stock to fluctuate*

The capital and credit markets periodically experience volatility. In some cases, the markets may produce downward pressure on stock prices and credit availability for certain issuers seemingly without regard to those issuers' underlying financial strength. Market volatility may result in a material adverse effect on our business, financial condition and results of operations and/or our ability to access capital. Several factors could cause the market price for our common stock to fluctuate substantially in the future, including without limitation:

announcements of developments related to our business;

fluctuations in our results of operations;

sales of substantial amounts of our securities into the marketplace;

general conditions in our markets or the worldwide economy;

a shortfall in revenues or earnings compared to securities analysts' expectations;

changes in analysts' recommendations or projections;

our announcement of new acquisitions or other projects; and

Regulatory changes we are required to comply with;

*A return to recessionary conditions or status quo in the current economic environment could result in increases in our level of non-performing loans and/or reduce demand for our products and services, which would lead to lower revenue, higher loan losses and lower earnings.*

Falling home prices and sharply reduced sales volumes, along with the collapse of the United States subprime mortgage industry in 2008 that followed a national home price peak in mid-2006, significantly contributed to a recession that officially lasted until June 2009, although the effects continued thereafter. Dramatic declines in real estate values and high levels of foreclosures resulted in significant asset write-downs by financial institutions, which have caused many financial institutions to seek additional capital, to merge with other institutions and, in some cases, to fail. Concerns over the United States credit rating (which was last downgraded by Standard & Poor's in August 2011), the European sovereign debt crisis, and continued high unemployment in the United States, among other economic indicators, have contributed to increased volatility in the capital markets and diminished expectations for the economy. Additionally, Congress and the President still

**Table of Contents**

need to resolve long-term issues with respect to the U.S. government's debt ceiling and other budgetary and spending matters. Uncertainty as to whether these issues can be resolved or how effective a resolution might be increases the risk of slower economic growth. The nature and ultimate resolution of these issues, or a failure to achieve a timely and effective resolution, may further adversely affect the U.S. economy through possible consequences including further downgrades in the ratings for U.S. Treasury securities, government shutdowns, or substantial spending cuts resulting from sequestration. A return of recessionary conditions and/or continued negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Further declines in real estate values and sales volumes and continued high unemployment levels may result in higher than expected loan delinquencies, increases in our levels of nonperforming and classified assets and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity, and financial condition.

*Previously enacted and potential future legislation, including legislation to reform the U.S. financial regulatory system, could adversely affect our business*

Market conditions have resulted in creation of various programs by the United States Congress, the Treasury, the Federal Reserve and the FDIC that were designed to enhance market liquidity and bank capital. As these programs expire, are withdrawn or reduced, the impact on the financial markets, banks in general and their customers is unknown. This could have the effect of, among other things, reducing liquidity, raising interest rates, reducing fee revenue, limiting the ability to raise capital, all of which could have an adverse impact on the financial condition of the Bank and the Corporation.

Additionally, the federal government has passed a variety of other reforms related to banking and the financial industry including, without limitation, the Dodd-Frank Act. The Dodd-Frank Act imposes significant regulatory and compliance changes. Effects of the Dodd-Frank Act on our business include:

changes to regulatory capital requirements;

exclusion of hybrid securities, including trust preferred securities, issued on or after May 19, 2010 from tier 1 capital;

creation of new government regulatory agencies (such as the Financial Stability Oversight Council, which will oversee systemic risk, and the Consumer Financial Protection Bureau, which will develop and enforce rules for bank and non-bank providers of consumer financial products);

potential limitations on federal preemption;

changes to deposit insurance assessments;

regulation of debit interchange fees we earn;

changes in retail banking regulations, including potential limitations on certain fees we may charge; and

changes in regulation of consumer mortgage loan origination and risk retention.

In addition, the Dodd-Frank Act restricts the ability of banks to engage in certain proprietary trading or to sponsor or invest in private equity or hedge funds, commonly referred to as the Volker Rule. The Dodd-Frank Act also contains provisions designed to limit the ability of insured depository institutions, their holding companies and their affiliates to conduct certain swaps and derivatives activities and to take certain principal positions in financial instruments.

Some provisions of the Dodd-Frank Act became effective immediately upon its enactment. Many provisions, however, will require regulations to be promulgated by various federal agencies in order to be implemented, some of which have been proposed by the applicable federal agencies. The provisions of the Dodd-Frank Act may have unintended effects, which will not be clear until implementation. The changes resulting from

## Table of Contents

the Dodd-Frank Act could limit our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise materially and adversely affect us. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements could also materially and adversely affect us.

*The Bureau of Consumer Financial Protection ( BCFP ) may reshape the consumer financial laws through rulemaking and enforcement of unfair, deceptive or abusive practices, which may directly impact the business operations of depository institutions offering consumer financial products or services including the Bank.*

The BCFP has broad rulemaking authority to administer and carry out the purposes and objectives of the Federal consumer financial laws, and to prevent evasions thereof, with respect to all financial institutions that offer financial products and services to consumers. The BCFP is also authorized to prescribe rules applicable to any covered person or service provider identifying and prohibiting acts or practices that are unfair, deceptive, or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service ( UDAP authority ). The potential reach of the BCFP s broad new rulemaking powers and UDAP authority on the operations of financial institutions offering consumer financial products or services including the Bank is currently unknown.

*Potential losses incurred in connection with possible repurchases and indemnification payments related to mortgages that we have sold into the secondary market may require us to increase our financial statement reserves in the future.*

We engage in the origination and sale of residential mortgages into the secondary market. In connection with such sales, we make certain representations and warranties, which, if breached, may require us to repurchase such loans or indemnify the purchasers of such loans for actual losses incurred in respect of such loans. These representations and warranties vary based on the nature of the transaction and the purchaser s or insurer s requirements but generally pertain to the ownership of the mortgage loan, the real property securing the loan and compliance with applicable laws and applicable lender and government-sponsored entity underwriting guidelines in connection with the origination of the loan. While we believe our mortgage lending practices and standards to be adequate, we have settled a small number of claims we consider to be immaterial; however we may receive requests in the future, which could be material in volume. If that were to happen, we could incur losses in connection with loan repurchases and indemnification claims, and any such losses might exceed our financial statement reserves, requiring us to increase such reserves. In that event, any losses we might have to recognize and any increases we might have to make to our reserves could have a material adverse effect on our business, financial position, results of operations or cash flows.

*Accounting standards periodically change and the application of our accounting policies and methods may require the Corporation to make estimates about matters that are uncertain*

The regulatory bodies that establish accounting standards, including, among others, the Financial Accounting Standards Board and the SEC, periodically revise or issue new financial accounting and reporting standards that govern the preparation of our consolidated financial statements. The effect of such revised or new standards on our financial statements can be difficult to predict and can materially impact how we record and report our financial condition and results of operations.

In addition, the Corporation must exercise judgment in appropriately applying many of our accounting policies and methods so they comply with generally accepted accounting principles. In some cases, the Corporation may have to select a particular accounting policy or method from two or more alternatives. In some cases, the accounting policy or method chosen might be reasonable under the circumstances and yet might result in our reporting materially different



amounts than would have been reported if we had selected a different policy or method. Accounting policies are critical to fairly presenting our financial condition and results of operations and may require the Corporation to make difficult, subjective or complex judgments about matters that are uncertain.

**Table of Contents**

*Rapidly changing interest rate environment could reduce the Corporation's net interest margin, net interest income, fee income and net income*

Interest and fees on loans and securities, net of interest paid on deposits and borrowings, are a significant part of the Corporation's net income. Interest rates are key drivers of the Corporation's net interest margin and subject to many factors beyond the control of the Corporation. As interest rates change, net interest income is affected. Rapidly changing interest rates in the future could result in interest expense increasing faster than interest income because of divergence in financial instrument maturities and/or competitive pressures. Further, substantially higher interest rates generally reduce loan demand and may result in slower loan growth. Decreases or increases in interest rates could have a negative effect on the spreads between the interest rates earned on assets and the rates of interest paid on liabilities, and therefore decrease net interest income. Also, changes in interest rates might also impact the values of equity and debt securities under management and administration by the Wealth Management Division which may have a negative impact on fee income. See the section captioned "Net Interest Income" in the MD&A section of this Annual Report on Form 10-K for additional details regarding interest rate risk.

*Provision for loan and lease losses and level of non-performing loans may need to be modified in connection with internal or external changes*

All borrowers carry the potential to default and our remedies to recover may not fully satisfy money previously loaned. We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, which represents the Corporation's best estimate of probable credit losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of the Corporation, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance for loan losses reflects the Corporation's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic conditions; and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks using existing qualitative and quantitative information, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of additional loan charge-offs, based on judgments different than those of the Corporation. An increase in the allowance for loan losses results in a decrease in net income, and possibly risk-based capital, and may have a material adverse effect on our financial condition and results of operations.

The design of the allowance for loan loss methodology is a dynamic process that must be responsive to changes in environmental factors. Accordingly, at times the allowance methodology may be modified in order to incorporate changes in various factors including, but not limited to, levels and trends of delinquencies and charge-offs, trends in volume and types of loans, national and economic trends and industry conditions.

*The Corporation's controls and procedures may fail or be circumvented*

The Corporation diligently reviews and updates its internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any failure or undetected circumvention of these controls could have a material adverse impact on our financial condition and results of operations.

*Decreased residential mortgage origination, volume and pricing decisions of competitors could affect our net income*

The Corporation originates, sells and services residential mortgage loans. Changes in interest rates and pricing decisions by our loan competitors affect demand for the Corporation's residential mortgage loan

## Table of Contents

products, the revenue realized on the sale of loans and revenues received from servicing such loans for others, ultimately reducing the Corporation's net income. New regulations, increased regulatory reviews, and/or changes in the structure of the secondary mortgage markets which the Corporation utilizes to sell mortgage loans may be introduced and may increase costs and make it more difficult to operate a residential mortgage origination business.

*The Corporation's performance and financial condition may be adversely affected by regional economic conditions and real estate values*

The Bank's loan and deposit activities are largely based in eastern Pennsylvania. As a result, the Corporation's consolidated financial performance depends largely upon economic conditions in this eastern Pennsylvania region. This region experienced deteriorating local economic conditions during 2008 through 2011, and a continued downturn in the regional real estate market could harm our financial condition and results of operations because of the geographic concentration of loans within this regional area and because a large percentage of our loans are secured by real property. If there is further decline in real estate values, the collateral for the Corporation's loans will provide less security. As a result, the Corporation's ability to recover on defaulted loans by selling the underlying real estate will be diminished, and the Bank will be more likely to suffer losses on defaulted loans.

Additionally, a significant portion of the Corporation's loan portfolio is invested in commercial real estate loans. Often in a commercial real estate transaction, repayment of the loan is dependent on rental income. Economic conditions may affect the tenant's ability to make rental payments on a timely basis, and may cause some tenants not to renew their leases, each of which may impact the debtor's ability to make loan payments. Further, if expenses associated with commercial properties increase dramatically, the tenant's ability to repay, and therefore the debtor's ability to make timely loan payments, could be adversely affected.

All of these factors could increase the amount of the Corporation's non-performing loans, increase its provision for loan and lease losses and reduce the Corporation's net income.

*Economic troubles may negatively affect our leasing business*

The Corporation's leasing business which began operations in September 2006, consists of nation-wide leasing various types of equipment to businesses with an average original equipment cost of approximately \$22 thousand per lease. Continued economic sluggishness may result in higher credit losses than we would experience in our traditional lending business, as well as potential increases in state regulatory burdens such as state income taxes, personal property taxes and sales and use taxes.

*A general economic slowdown could impact Wealth Management Division revenues*

A general economic slowdown could decrease the value of Wealth Management Division assets under management and administration resulting in lower fee income, and clients potentially seeking alternative investment opportunities with other providers, which resulting in lower fee income to the Corporation.

*Our ability to realize our deferred tax asset may be reduced, which may adversely impact results of operations*

Realization of a deferred tax asset requires us to exercise significant judgment and is inherently uncertain because it requires the prediction of future occurrences. The deferred tax asset may be reduced in the future if estimates of future income or our tax planning strategies do not support the amount of the deferred tax asset. If it is determined that a valuation allowance of its deferred tax asset is necessary, the Corporation may incur a charge to earnings.



**Table of Contents**

*Environmental risk associated with our lending activities could affect our results of operations and financial condition*

A significant portion of our loan portfolio is secured by real property. In the course of our business, we may own or foreclose and take title to real estate and could become subject to environmental liabilities with respect to these properties. We may become responsible to a governmental agency or third parties for property damage, personal injury, investigation and clean-up costs incurred by those parties in connection with environmental contamination, or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with environmental investigation or remediation activities could be substantial. If we were to become subject to significant environmental liabilities, it could have a material adverse effect on our results of operations and financial condition.

*Technological systems failures, interruptions and security breaches could negatively impact our operations*

Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger, our deposits, and our loans. While we have established policies and procedures to prevent or limit the impact of systems failures, interruptions, and security breaches, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, any compromise of our security systems could deter customers from using our web site and our online banking service, which involve the transmission of confidential information. Although we rely on commonly used security and processing systems to provide the security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

In addition, we outsource certain of our data processing to third-party providers. If our third-party providers encounter difficulties, or if we have difficulty in communicating with them, our ability to adequately process and account for customer transactions could be affected, and our business operations could be adversely impacted. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any systems failure, interruption, or breach of security could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to civil litigation and possible financial liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations.

Additionally, financial products and services have become increasingly technology-driven. Our ability to meet the needs of our customers competitively, and in a cost-efficient manner, is dependent on our ability to keep pace with technological advances and to invest in new technology as it becomes available. Many of our competitors have greater resources to invest in technology than we do and may be better equipped to market new technology-driven products and services. The ability to keep pace with technological change is important, and the failure to do so on our part could have a material adverse impact on our business and therefore on our financial condition and results of operations.

*The Corporation is subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors*

Employee errors and misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity

may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

**Table of Contents**

We maintain a system of internal controls and insurance coverage to mitigate operational risks, including data processing system failures and errors and customer or employee fraud. Should our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, results of operations and financial condition.

*Potential acquisitions may disrupt the Corporation's business and dilute shareholder value*

We regularly evaluate opportunities to strengthen our current market position by acquiring and investing in banks and in other complementary businesses, or opening new branches. As a result, we may engage in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our operating results and financial condition, including short and long-term liquidity. Our acquisition activities could be material to us. For example, we could issue additional shares of common stock in a purchase transaction, which could dilute current shareholders' ownership interest. These activities could require us to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our prior or potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized. Any potential charges for impairment related to goodwill would not directly impact cash flow or tangible capital.

Our acquisition activities could involve a number of additional risks, including the risks of:

incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in the Corporation's attention being diverted from the operation of our existing business;

using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;

potential exposure to unknown or contingent liabilities of banks and businesses we acquire;

the time and expense required to integrate the operations and personnel of the combined businesses;

experiencing higher operating expenses relative to operating income from the new operations;

creating an adverse short-term effect on our results of operations;

losing key employees and customers as a result of an acquisition that is poorly received; and

risk of significant problems relating to the conversion of the financial and customer data of the entity being acquired into the Corporation's financial and customer product systems.



There is no assurance that we will be successful in overcoming these risks or any other problems encountered in connection with pending or potential acquisitions. Our inability to overcome these risks could have an adverse effect on our levels of reported net income, ROE and ROA, and our ability to achieve our business strategy and maintain our market value.

*Attractive acquisition opportunities may not be available to us in the future which could limit the growth of our business*

We may not be able to sustain a positive rate of growth or be able to expand our business. We expect that other banking and financial service companies, many of which have significantly greater resources than us, will compete with us in acquiring other financial institutions if we pursue such acquisitions. This competition could increase prices for potential acquisitions that we believe are attractive. Also, acquisitions are subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals for a transaction, we will not be able to consummate such transaction which we believe to be in our best interests. Among other things, our regulators consider our capital, liquidity, profitability, regulatory compliance and levels of goodwill and intangibles when

## Table of Contents

considering acquisition and expansion proposals. Other factors, such as economic conditions and legislative considerations, may also impede or prohibit our ability to expand our market presence. If we are not able to successfully grow our business, our financial condition and results of operations could be adversely affected.

*The financial services industry is very competitive, and such competition could affect our operating results*

The Corporation faces competition in attracting and retaining deposits, making loans, and providing other financial services such as trust and investment management services throughout the Corporation's market area. The Corporation's competitors include other community banks, larger banking institutions, trust companies and a wide range of other financial institutions such as credit unions, registered investment advisors, financial planning firms, leasing companies, government-sponsored enterprises, on-line banking enterprises, mutual fund companies, insurance companies and other non-bank businesses. Many of these competitors have substantially greater resources than the Corporation. This is especially evident in regards to advertising and public relations spending. For a more complete discussion of our competitive environment, see Business Competition in Item 1 above. If the Corporation is unable to compete effectively, the Corporation may lose market share and income from deposits, loans, and other products may be reduced.

Additionally, increased competition among financial services companies due to consolidation of certain competing financial institutions and the conversion of certain investment banks to bank holding companies may adversely affect our ability to market our products and services.

*The Corporation's common stock is subordinate to all of our existing and future indebtedness; regulatory and contractual restrictions may limit or prevent us from paying dividends on our common stock; and we are not limited on the amount of indebtedness we and our subsidiaries may incur in the future*

Our common stock ranks junior to all indebtedness, including our outstanding subordinated debentures, and other non-equity claims on the Corporation with respect to assets available to satisfy claims on the Corporation, including in a liquidation of the Corporation. Additionally, unlike indebtedness, where principal and interest would customarily be payable on specified due dates, in the case of our common stock, dividends are payable only when, as and if authorized and declared by our Board of Directors and depend on, among other things, our results of operations, financial condition, debt service requirements, other cash needs and any other factors our Board of Directors deems relevant. Under Pennsylvania law we are subject to restrictions on payments of dividends out of lawfully available funds. Also, the Corporation's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

In addition, we are not limited by our common stock in the amount of debt or other obligations we or our subsidiaries may incur in the future. Accordingly, we and our subsidiaries may incur substantial amounts of additional debt and other obligations that will rank senior to our common stock or to which our common stock will be structurally subordinated.

*There may be future sales of additional common stock or other dilution of our equity, which may adversely affect the market price of our common stock*

We are not restricted from issuing additional common stock or other securities. Additionally, our shareholders may in the future approve the authorization of additional classes or series of stock which may have distribution or other rights senior to the rights of our common stock, or may be convertible into or exchangeable for, or may represent the right to receive, common stock or substantially similar securities. The future issuance of shares of our common stock or any other such future equity classes or series could have a dilutive effect on the holders of our common stock.

Additionally, the market value of our common stock could decline as a result of sales by us of a large number of shares of common stock or any future class or series of stock in the market or the perception that such sales could occur.

**Table of Contents**

*Downgrades in U.S. government and federal agency securities could adversely affect the Corporation*

In addition to causing economic and financial market disruptions, any downgrades in U.S. government and federal agency securities, or failures to raise the U.S. debt limit if necessary in the future, could, among other things, materially adversely affect the market value of the U.S. and other government and governmental agency securities that we hold, the availability of those securities as collateral for borrowing, and our ability to access capital markets on favorable terms, as well as have other material adverse effects on the operation of our business and our financial results and condition. In particular, it could increase interest rates and disrupt payment systems, money markets, and long-term or short-term fixed income markets, adversely affecting the cost and availability of funding, which could negatively affect profitability. Also, the adverse consequences as a result of the downgrade could extend to the borrowers of the loans the bank makes and, as a result, could adversely affect its borrowers' ability to repay their loans.

*Additional risk factors also include the following all of which may reduce revenues and/or increase expenses and/or pull the Corporation's attention away from core banking operations which may ultimately reduce the Corporation's net income:*

Inability to hire or retain key professionals, management and staff;

Changes in securities analysts' estimates of financial performance;

Volatility of stock market prices and volumes;

Rumors or erroneous information;

Changes in market values of similar companies;

New developments in the banking industry;

Variations in quarterly or annual operating results;

New litigation or changes in existing litigation;

Regulatory actions;

Restructuring of government-sponsored enterprises such as Fannie Mae and Freddie Mac;

Changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

As of December 31, 2013, the Corporation owns or leases 19 full-service branch locations, seven limited-service Life Care Community branches and eight other office properties which serve as administrative offices.

The total minimum cash lease payments for office, branch office (including ground leases) and life care community locations amount to \$255 thousand per month.

**Table of Contents**

The following table details the Corporation's properties and deposits as of December 31, 2013:

<b>Property Address</b>	<b>Owned/Leased</b>	<b>Net Book Value as of December 31, 2013 (dollars in thousands)</b>	<b>Total Deposits as of December 31, 2013 (dollars in thousands)</b>
<b>Full Service Branches:</b>			
801 Lancaster Ave., Bryn Mawr, PA 19010*	Owned	\$ 4,836	\$ 659,054
50 W. Lancaster Ave., Ardmore, PA 19003	Leased	2,189	91,901
5000 Pennell Rd., Aston, PA 19014	Leased	403	23,714
135 E. City Avenue, Bala Cynwyd, PA 19004	Leased	2,429	7,179
3218 Edgemont Ave., Brookhaven, PA 19015	Owned	706	55,442
US Rts. 1 and 100, Chadds Ford, PA 19317	Leased	40	28,800
23 E. Fifth St., Chester, PA 19013	Leased	74	27,524
31 Baltimore Pk., Chester Heights, PA 19017	Leased	430	53,054
237 N. Pottstown Pk., Exton, PA 19341	Leased	756	45,776
18 W. Eagle Rd., Havertown, PA 19083	Owned	1,045	81,462
106 E. Street Rd., Kennett Square, PA 19348	Leased	505	26,601
22 W. State St., Media, PA 19063	Owned	3,251	62,537
3601 West Chester Pk., Newtown Square, PA 19073	Leased	1,067	48,139
39 W. Lancaster Ave., Paoli, PA 19301	Owned	1,445	74,994
330 Dartmouth Ave., Swarthmore, PA 19081	Owned	715	49,003
849 Paoli Pk., West Chester, PA 19380	Leased	1,324	36,885
330 E. Lancaster Ave., Wayne, PA 19087	Owned	1,725	125,905
One Tower Bridge, West Conshohocken, PA 19428	Leased	3	23,355
1000 Rocky Run Parkway, Wilmington, DE 19803	Leased	500	35,918
<b>Life Care Community Offices:</b>			
601 N. Ithan Ave., Bryn Mawr, PA 19010	Leased		6,916
1400 Waverly Rd, Gladwyne, PA 19035	Leased		3,454
3300 Darby Rd., Haverford, PA 19041	Leased		5,456
11 Martins Run, Media, PA 19063	Leased		3,620
535 Gradyville Rd., Newtown Square, PA 19073	Leased	21	10,014

404 Cheswick Pl., Bryn Mawr, PA 19010	Leased		3,764
1615 E. Boot Rd., West Chester, PA 19380	Leased		880
<b>Other Administrative Offices:</b>			
2, 6 S. Bryn Mawr Ave., Bryn Mawr, PA 19010	Leased	471	Not applicable
10 S. Bryn Mawr Ave., Bryn Mawr, PA 19010***	Owned	746	Not applicable
4093 W. Lincoln Hwy., Exton, PA 19341**	Leased		Not applicable
16 Campus Blvd., Newtown Square, PA 19073**	Leased		Not applicable
322 E. Lancaster Ave., Wayne, PA 19087	Owned	2,140	Not applicable
1 West Chocolate Avenue, Hershey, PA 17033***	Leased	7	Not applicable
20 Montchanin Rd, Suite 185 Greenville, DE 19807**	Leased	31	Not applicable
20 North Waterloo Rd, Devon PA 19380***	Leased	108	Not applicable
<b>Subsidiary Offices:</b>			
Lau Associates 20 Montchanin Rd, Suite 110, Greenville, DE 19087	Leased	192	Not applicable
BMTC-DE 20 Montchanin Rd, Suite 100 Greenville, DE 19807	Leased	36	Not applicable
<b>Total:</b>		27,195	\$ 1,591,347

\* Corporate headquarters and executive offices

\*\* Lending office

\*\*\*Wealth Management office

**Table of Contents**

**ITEM 3. LEGAL PROCEEDINGS**

Neither the Corporation nor any of its subsidiaries is a party to, nor is any of their property the subject of, any material legal proceedings other than ordinary routine litigation incident to their businesses.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.



Table of Contents**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The Corporation's common stock is traded on the NASDAQ Stock Market under the symbol BMTC. As of December 31, 2013, there were 623 holders of record of the Corporation's common stock.

**Range of Market Prices of Common Stock and Cash Dividends**

	2013			2012		
	High Bid	Low Bid	Dividend Declared	High Bid	Low Bid	Dividend Declared
1 <sup>st</sup> Quarter	\$ 23.58	\$ 21.73	\$ 0.17	\$ 22.88	\$ 19.40	\$ 0.16
2 <sup>nd</sup> Quarter	\$ 23.99	\$ 22.01	\$ 0.17	\$ 22.67	\$ 19.90	\$ 0.16
3 <sup>rd</sup> Quarter	\$ 28.20	\$ 22.65	\$ 0.17	\$ 22.99	\$ 20.61	\$ 0.16
4 <sup>th</sup> Quarter	\$ 31.76	\$ 24.07	\$ 0.18	\$ 22.90	\$ 19.97	\$ 0.16

The information regarding dividend restrictions is set forth in Note 24 – Dividend Restrictions in the accompanying Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

**Comparison of Cumulative Total Return Chart**

The following chart compares the yearly percentage change in the cumulative shareholder return on the Corporation's common stock during the five years ended December 31, 2013, with (1) the Total Return for the NASDAQ Market Index; (2) the Total Return Index for SNL Bank and Thrift Index; and (3) the Total Return Index for SNL Mid-Atlantic Bank Index. This comparison assumes \$100.00 was invested on December 31, 2008, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends.

**Table of Contents****Five Year Cumulative Total Return Summary****For The Twelve Months Ended December 31,**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Bryn Mawr Bank Corporation	\$ 100.00	\$ 77.53	\$ 92.66	\$ 106.75	\$ 125.69	\$ 175.05
NASDAQ Market Index	\$ 100.00	\$ 145.36	\$ 171.74	\$ 170.38	\$ 200.63	\$ 281.22
SNL Bank and Thrift	\$ 100.00	\$ 98.66	\$ 110.14	\$ 85.64	\$ 115.00	\$ 157.46
SNL Mid-Atlantic Bank	\$ 100.00	\$ 105.27	\$ 122.81	\$ 92.26	\$ 123.59	\$ 166.59

**Equity Compensation Plan Information**

Equity compensation plan information is incorporated by reference to Item 12 of this Annual Report on Form 10-K. Additional information regarding the Corporation's equity compensation plans can be found at Note 18 – Stock Based Compensation in the accompanying Notes to Consolidated Financial Statements found in this Annual Report on Form 10-K.

**Issuer Purchases of Equity Securities**

The following tables present the repurchasing activity of the Corporation during the fourth quarter of 2013:

**Shares Repurchased in the 4<sup>th</sup> Quarter of 2013 <sup>(1) (2)</sup>**

<b>Period:</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs</b>
Oct. 1, 2013 – Oct. 31, 2013	498	\$ 26.45		195,705
Nov. 1, 2013 – Nov. 30, 2013				195,705
Dec. 1, 2013 – Dec. 31, 2013				195,705
<b>Total</b>	<b>498</b>	<b>\$ 26.45</b>		

(1) On February 24, 2006, the Board of Directors of the Corporation adopted a new stock repurchase program (the 2006 Program) under which the Corporation may repurchase up to 450,000 shares of the Corporation's common stock, not to exceed \$10 million. The 2006 Program was publicly announced in a Press Release dated February 24, 2006. There is no expiration date on the 2006 Program. All shares purchased through the 2006 Program were accomplished in open market transactions.

(2) On October 1, 2013, 498 shares were purchased by the Corporation's deferred compensation plan trusts through open market transactions.



**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

<b>Earnings</b> <i>(dollars in thousands)</i>	<b>As of or for the Twelve Months Ended December 31,</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009*</b>
Interest income	\$ 78,417	\$ 73,323	\$ 74,562	\$ 64,897	\$ 56,892
Interest expense	5,427	8,588	11,661	12,646	16,099
Net interest income	72,990	64,735	62,901	52,251	40,793
Provision for loan and lease losses	3,575	4,003	6,088	9,854	6,884
Net interest income after provision for loan and lease losses	69,415	60,732	56,813	42,397	33,909
Non-interest income	48,355	46,386	34,059	29,299	28,470
Non-interest expense	80,740	74,901	61,729	58,206	46,542
Income before income taxes	37,030	32,217	29,143	13,490	15,837
Income taxes	12,586	11,070	9,541	4,444	5,500
Net Income	\$ 24,444	\$ 21,147	\$ 19,602	\$ 9,046	\$ 10,337
<b>Per Share Data</b>					
Weighted-average shares outstanding	13,311,215	13,090,110	12,659,824	10,680,377	8,732,004
Dilutive potential common shares	260,395	151,736	82,313	12,312	16,719
Adjusted weighted-average shares	13,571,610	13,241,846	12,742,137	10,692,689	8,748,723
Earnings per common share:					
Basic	\$ 1.84	\$ 1.62	\$ 1.55	\$ 0.85	\$ 1.18
Diluted	\$ 1.80	\$ 1.60	\$ 1.54	\$ 0.85	\$ 1.18
Dividends declared	\$ 0.69	\$ 0.64	\$ 0.60	\$ 0.56	\$ 0.56
Dividends declared per share to net income per basic common share	37.5%	39.5%	38.7%	65.9%	47.5%
Shares outstanding at year end	13,650,354	13,412,690	13,106,353	12,181,247	8,866,420
Book value per share	\$ 16.84	\$ 15.18	\$ 14.07	\$ 13.14	\$ 11.72
Tangible book value per share	\$ 13.02	\$ 11.08	\$ 10.81	\$ 11.11	\$ 10.40
<b>Profitability Ratios</b>					
Tax-equivalent net interest margin	3.98%	3.85%	3.96%	3.79%	3.70%
Return on average assets	1.23%	1.15%	1.13%	0.61%	0.88%
Return on average equity	11.53%	10.91%	11.10%	6.72%	10.55%
Non-interest expense to net-interest income and	66.5%	67.4%	63.7%	71.4%	67.2%

<b>non-interest income</b>					
Non-interest income to net-interest income and non-interest income	39.9%	41.7%	35.1%	35.9%	41.1%
Average equity to average total assets	10.63%	10.58%	10.19%	9.02%	8.30%
<b>Financial Condition</b>					
Total assets	\$ 2,061,665	\$ 2,035,885	\$ 1,773,373	\$ 1,730,388	\$ 1,238,821
Total liabilities	1,831,767	1,832,321	1,588,994	1,570,350	1,134,885
Total shareholders equity	229,898	203,564	184,379	160,038	103,936
Interest-earning assets	1,905,398	1,879,412	1,629,607	1,600,125	1,164,617
Portfolio loans and leases	1,547,185	1,398,456	1,295,392	1,196,717	885,739
Investment securities	289,245	318,061	275,258	320,047	208,224
Goodwill	32,843	32,897	24,689	17,659	6,301
Intangible assets	19,365	21,998	18,014	7,064	5,421
Deposits	1,591,347	1,634,682	1,382,369	1,341,432	937,887
Borrowings	216,535	170,718	183,158	204,724	169,388
Wealth assets under management, administration, supervision and brokerage	7,268,273	6,663,212	4,831,631	3,412,890	2,871,143
<b>Capital Ratios</b>					
Ratio of tangible common equity to tangible assets	8.92%	7.60%	8.19%	7.93%	7.51%
Tier 1 capital to risk weighted assets	11.57%	11.02%	11.16%	11.21%	9.41%
Total regulatory capital to risk weighted assets	12.55%	12.02%	13.74%	13.62%	12.53%
<b>Asset quality</b>					
Allowance as a percentage of portfolio loans and leases	1.00%	1.03%	0.98%	0.86%	1.18%
Non-performing loans and leases as a percentage of portfolio loans and leases	0.68%	1.06%	1.11%	0.79%	0.78%

\*In 2012, the Corporation identified an immaterial accounting error which is discussed in Note 1B in the Notes to Consolidated Financial Statements. Amounts for 2009 have not been adjusted to reflect the immaterial effect of the correction of this error.

Information related to accounting changes may be found under the caption New Accounting Pronouncements at Note 1-W in the accompanying Notes to Consolidated Financial Statements found in this Annual Report on Form 10-K.

---

**Table of Contents**

**ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OPERATIONS ( MD&A )**

**Brief History of the Corporation**

The Bryn Mawr Trust Company (the Bank ) received its Pennsylvania banking charter in 1889 and is a member of the Federal Reserve System. In 1986, Bryn Mawr Bank Corporation (the Corporation ) was formed and on January 2, 1987, the Bank became a wholly-owned subsidiary of the Corporation. The Bank and Corporation are headquartered in Bryn Mawr, Pennsylvania, a western suburb of Philadelphia. The Corporation and its subsidiaries offer a full range of personal and business banking services, consumer and commercial loans, equipment leasing, mortgages, insurance and wealth management services, including investment management, trust and estate administration, retirement planning, custody services, and tax planning and preparation from 19 full-service branches, seven limited-hour, retirement community offices and five wealth offices located throughout Montgomery, Delaware, Chester and Dauphin counties of Pennsylvania and New Castle county in Delaware. The common stock of the Corporation trades on the NASDAQ Stock Market ( NASDAQ ) under the symbol BMTC.

The Corporation operates in a highly competitive market area that includes local, national and regional banks as competitors along with savings banks, credit unions, insurance companies, trust companies, registered investment advisors and mutual fund families. The Corporation and its subsidiaries are regulated by many agencies including the Securities and Exchange Commission ( SEC ), NASDAQ, Federal Deposit Insurance Corporation ( FDIC ), the Federal Reserve and the Pennsylvania Department of Banking and Securities. The goal of the Corporation is to become the preeminent community bank and wealth management organization in the Philadelphia area.

During the four years ended December 31, 2013, the Corporation completed the following transactions:

**First Bank of Delaware**

On November 17, 2012, the acquisition of \$70.3 million of deposits, \$76.6 million of loans and a branch location from First Bank of Delaware ( FBD ), by the Corporation was completed. The transaction, which was accounted for as a business combination, enabled the Corporation to expand its banking arm into the Delaware market by opening its first full-service branch there, complementing its existing wealth management operations in the state.

**Davidson Trust Company**

On May 15, 2012, the acquisition of Davidson Trust Company ( DTC ) by the Corporation was completed. The transaction was accounted for as a business combination. The acquisition of DTC initially increased the Corporation s wealth management division assets under management by \$1.0 billion. The structure of the Corporation s existing wealth management segment allowed for the immediate integration of DTC and was able to take advantage of the various synergies that exist between the two companies.

**The Private Wealth Management Group of The Hershey Trust Company**

On May 27, 2011, the acquisition of the Private Wealth Management Group of the Hershey Trust Company ( PWMG ) by the Corporation was completed. The transaction was accounted for as a business combination. The acquisition of PWMG initially increased the Corporation s wealth management division assets under management by \$1.1 billion. The acquisition of PWMG allowed the Corporation to establish a presence in central Pennsylvania by maintaining the former PWMG offices in Hershey, Pennsylvania.

**First Keystone Financial, Inc.**

On July 1, 2010, the merger of First Keystone Financial, Inc. ( FKF ) with and into the Corporation, and the two step merger of FKF s wholly-owned subsidiary, First Keystone Bank with and into the Bank, were completed.

---

## **Table of Contents**

The transaction was accounted for as a business combination. The merger with FKF, a federally chartered thrift institution with assets of approximately \$480 million, enabled the Corporation to increase its regional footprint with the addition of eight full service branch locations, primarily in Delaware County, Pennsylvania. The geographic locations of the acquired branches were such that it was not necessary to close any of the former FKF branches. By expanding into these new areas within Delaware County, Pennsylvania, the Corporation has been able to extend its successful sales culture as well as offer its reputable wealth management products and other value-added services to a wider segment of the region's population.

## **Results of Operations**

The following is Management's discussion and analysis of the significant changes in the results of operations, capital resources and liquidity presented in the accompanying consolidated financial statements. The Corporation's consolidated financial condition and results of operations are comprised primarily of the Bank's financial condition and results of operations. Current performance does not guarantee, and may not be indicative of, similar performance in the future. For more information on the factors that could affect performance, see Special Cautionary Notice Regarding Forward Looking Statements on page 60 of this Item.

## **Critical Accounting Policies, Judgments and Estimates**

The accounting and reporting policies of the Corporation and its subsidiaries conform to U.S. generally accepted accounting principles (GAAP). All inter-company transactions are eliminated in consolidation and certain reclassifications are made when necessary in order to conform the previous years' financial statements to the current year's presentation. In preparing the consolidated financial statements, Management is required to make estimates and assumptions that affect the reported amount of assets and liabilities as of the dates of the balance sheets and revenues and expenditures for the periods presented. Therefore, actual results could differ from these estimates.

**Fair Value Measurement of Investment Securities Available-for-Sale and Assessment for Impairment of Certain Investment Securities:** The Corporation designates its investment securities as held-to-maturity, available-for-sale or trading. Each of these designations affords different treatment in the statement of operations and statement of financial condition for market value changes affecting securities that are otherwise identical. Should evidence emerge that indicates that management's intent or ability to manage the securities as originally asserted is not supportable, securities in the held-to-maturity or available-for-sale designations may be re-categorized so that either statement of financial position or statement of operations adjustments may be required.

**Valuation of Goodwill and Other Intangible Assets:** Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with its acquisitions. The Corporation completes a goodwill impairment analysis at least on an annual basis, or more often, if events and circumstances indicate that there may be impairment. The Corporation also completes an annual impairment test for other intangible assets, or more often, if events and circumstances indicate a possible impairment. There was no goodwill impairment and no material impairment to identifiable intangibles recorded during 2013 or 2012. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

**The Allowance for Loan and Lease Losses** (the Allowance) involves a higher degree of judgment and complexity than other significant accounting policies. The allowance for loan and lease losses is calculated with the objective of maintaining a reserve level believed by the Corporation to be sufficient to absorb estimated probable credit losses. The Corporation's determination of the adequacy of the allowance is based on periodic evaluations of the loan and lease portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, expected loan commitment usage, the amounts and timing of



expected future cash flows on impaired loans and leases, value of collateral, estimated losses on consumer loans and residential mortgages and general amounts for historical loss experience. The process also considers economic conditions and inherent risks in the loan and lease portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from the

## **Table of Contents**

Corporation's estimates, additional provision for loan and lease losses (the Provision ) may be required that would adversely impact earnings in future periods. See the section of this document titled *Asset Quality and Analysis of Credit Risk* for additional information.

**Other significant accounting policies** are presented in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements. The Corporation's accounting policies have not substantively changed any aspect of its overall approach in the application of the foregoing policies.

## **Overview of General Economic, Regulatory and Governmental Environment**

In 2013, Real Gross Domestic Product in the United States grew at a rate of around 2%. While consumer and business investment spending recorded positive growth trends, the full-year growth comparisons were stifled by the negative impact of the government sequestration initiatives instituted in the first quarter of 2013. The continued uncertainty surrounding the potential for incremental tax and regulatory actions, as a result of political posturing during the year, negatively affected investor confidence.

In spite of the continued concerns about geopolitical uncertainties, positive, broad economic recovery trends occurred in the United States throughout 2013. The unemployment rate declined, consumer confidence levels improved, capacity utilization rates gradually increased, business investment spending plans were raised and corporate profits rose to record levels.

In 2013, domestic equity markets turned in an exceptional performance with the S&P 500 producing a total return of 32.39%. Smaller capitalization domestic stocks, as measured by the Russell 2500 Index returned an even higher 36.80%. Conversely, fixed income investments, particularly investment grade issues, produced modest total returns for the year, as price erosion offset coupon income. We believe that returns from U.S. equities are unlikely to match the stellar results of last year but will be a more favorable asset class, relative to fixed income investments, which will continue to encounter strong headwinds from the unwinding of Quantitative Easing and a broadening economic recovery.

The recent Federal Reserve Board action which begins to wind down Operation Twist by reducing the monthly purchases of fixed income securities is a reflection of the central bank's growing confidence that the economy has regained a level of recovery growth that is viewed as sustainable without the need for continued Federal Reserve action.

As we move through 2014, the domestic economy is experiencing increasingly broad economic growth as a result of improving consumer confidence and spending trends and an increase in business fixed-investment spending trends. The gradual recovery in the housing industry, as excess inventory has been worked through, has been a major driver. Consumer balance sheets have strengthened and bank capital levels have risen to meet the increased regulatory benchmarks that will allow these institutions to reenter the mortgage lending market. Within this firming economic environment, the absence of the fiscal drag that was present last year, due to the governmental spending cuts imposed by the sequestration, is expected to improve in real GDP growth, closer to the neighborhood of 3%.

During 2014, consumer spending is expected to increase by approximately 3%, aided by improving confidence and modest gains in disposable personal income levels. Business investment spending should show relatively strong gains in the area of 8% to 10%, reflecting the sector's strong capital position coupled with the need to increase efficiencies and modernize current production facilities. Governmental spending levels should remain relatively flat for the next year, as significant cuts initiated in 2013 may be modified, but should be allowed to continue in their aggregate effect going forward.

The relatively modest economic rebound experienced during the last five years in relation to the magnitude of the recession has set the stage for what may be a longer-than-anticipated cyclical recovery period.

---

**Table of Contents**

Capacity-utilization rates continue to be relatively low and there is no sign of inflationary pressure on the economy, currently, as we enter the fifth year of the recovery. As the recovery continues to broaden both domestically and internationally, the positive economic trends that are driving the market currently could be expected to continue over the next two to three years, barring any significant geopolitical shock.

**Executive Overview****2013 Compared to 2012***Income Statement*

The Corporation reported net income of \$24.4 million or \$1.80 diluted earnings per share for the twelve months ended December 31, 2013, as compared to \$21.1 million, or \$1.60 diluted earnings per share, for the same period in 2012. Return on average equity ( ROE ) and return on average assets ( ROA ) for the twelve months ended December 31, 2013, were 11.53% and 1.23%, respectively, as compared to 10.91% and 1.15%, respectively, for the same period in 2012. The increase in net income for the twelve months ended December 31, 2013, as compared to the same period in 2012, was largely related to an \$8.3 million increase in net interest income, which reflected a 12.8% increase from 2012. A \$2.0 million increase in non-interest income was offset by a \$5.8 million increase in non-interest expense and a \$1.5 million increase in income tax expense for the twelve months ended December 31, 2013 as compared to the same period in 2012.

The \$8.3 million, or 12.8% increase in the Corporation's tax-equivalent net interest income for the twelve months ended December 31, 2013, as compared to the same period in 2012, was largely attributed to the \$144.4 million increase in average portfolio loans between the periods, as the \$76.6 million of loans acquired in the FBD transaction at the end of 2012 were supplemented by robust organic loan growth during 2013. In addition to this increase in average interest-earning assets, average interest-bearing liabilities also increased by \$73.4 million, partially as the result of the deposits acquired from FBD. However, the average rate paid on interest-bearing liabilities declined by 27 basis points between the periods. The Corporation's tax-equivalent net interest margin increased to 3.98% for the twelve months ended December 31, 2013 from 3.85% for the same period in 2012.

For the twelve months ended December 31, 2013, the provision for loan and lease losses of \$3.6 million was a decrease of \$428 thousand from the \$4.0 million for the same period in 2012. Net loan and lease charge offs for the twelve months ended December 31, 2013 totaled \$2.5 million, a \$154 thousand decrease from the same period in 2012.

Non-interest income for the twelve months ended December 31, 2013 was \$48.4 million, an increase of \$2.0 million as compared to the same period in 2012. Contributing to the increase was a \$5.4 million increase in wealth management revenue between the periods. Partially offsetting this increase were decreases of \$2.6 million and \$1.4 million in the gains on sale of residential mortgage loans and available for sale investment securities, respectively, between the periods.

Non-interest expense for the twelve months ended December 31, 2013, was \$80.7 million, an increase of \$5.8 million, as compared to the same period in 2012. Contributing to this increase were a \$3.9 million increase in salaries and employee benefits expense and a \$1.2 million increase in occupancy and equipment expense between the periods, as the Corporation has implemented several infrastructure improvements during the year.

*Balance Sheet*

Asset quality remained relatively stable as of December 31, 2013. The allowance for loan and lease losses of \$15.5 million was 1.00% of portfolio loans and leases, as of December 31, 2013, as compared to \$14.4 million, or 1.03% of portfolio loans and leases, at December 31, 2012. The increase in the Allowance as of December 31, 2013, as compared to December 31, 2012, is reflective of the increase in the balance of loan portfolio between the dates.

## **Table of Contents**

Total portfolio loans and leases of \$1.55 billion at December 31, 2013 increased \$148.7 million, or 10.6%, as compared to \$1.40 billion at December 31, 2012. The loan growth was concentrated in the commercial mortgage, commercial and industrial, construction, and residential mortgage segments of the portfolio.

The Corporation's available for sale investment portfolio at December 31, 2013 had a fair market value of \$285.8 million, as compared to \$316.6 million at December 31, 2012, as cash inflows from maturities, calls and pay downs were utilized for loan origination.

Deposits of \$1.59 billion, as of December 31, 2013, decreased \$43.3 million from December 31, 2012. The 2.7% decrease was largely the result of a \$77.8 million decrease in retail time deposits, as the Corporation continued its planned run-off of its higher-rate time deposits. Partially offsetting this reduction in retail time deposits was a \$27.0 million increase in non-interest-bearing deposits, which comprised 26.8% of total deposits as of December 31, 2013, up from 24.4% as of the end of 2012.

### *Wealth Assets*

Wealth assets under management, administration, supervision and brokerage increased to \$7.3 billion as of December 31, 2013, an increase of \$605 million from \$6.6 billion as of December 31, 2012.

## **2012 Compared to 2011**

### *Income Statement*

The Corporation reported net income of \$21.1 million or \$1.60 diluted earnings per share for the twelve months ended December 31, 2012, as compared to \$19.6 million, or \$1.54 diluted earnings per share, for the same period in 2011. ROE and ROA for the twelve months ended December 31, 2012, were 10.91% and 1.15%, respectively, as compared to 11.08% and 1.14%, respectively, for the same period in 2011. The increase in net income for the twelve months ended December 31, 2012, as compared to the same period in 2011, was largely related to a \$12.3 million increase in non-interest income, comprised primarily of increases in wealth management revenue and gains on sale of residential mortgage loans. Also contributing to the net income increase was a \$1.8 million increase in net interest income and a \$2.1 million decrease in Provision between the periods. These improvements were substantially offset by a \$13.2 million increase in non-interest expense and a \$1.5 million increase in income tax expense for the twelve months ended December 31, 2012, as compared to the same period in 2011.

The \$1.8 million, or 2.9% increase in the Corporation's tax-equivalent net interest income for the twelve months ended December 31, 2012, as compared to the same period in 2011, was attributed to a \$3.1 million, or 26.4%, decrease in tax-equivalent interest expense offset by a \$1.2 million, or 1.6%, decrease in tax-equivalent interest income for the twelve months ended December 31, 2012, as compared to the same period in 2011. The Corporation's tax-equivalent net interest margin declined to 3.85% for the twelve months ended December 31, 2012 from 3.96% for the same period in 2011.

For the twelve months ended December 31, 2012, the provision for loan and lease losses of \$4.0 million was a decrease of \$2.1 million from the \$6.1 million for the same period in 2011. This decrease was partially the result of a \$1.3 million, or 35.4%, decline in net loan charge-offs for the twelve months ended December 31, 2012, as compared to the same period in 2011. The decrease in net loan charge-offs was concentrated in the commercial mortgage, leasing and residential mortgage segments of the portfolio.

Non-interest income for the twelve months ended December 31, 2012 was \$46.4 million, an increase of \$12.3 million, or 36.2%, as compared to the same period in 2011. Largely contributing to the increase in non-interest income was an \$8.1 million, or 37.5%, increase in fees for wealth management services, as the additions of PWMG in May 2011 and DTC in May 2012 had a significant impact on wealth management revenue. Augmenting the wealth management revenue increase was a \$4.2 million, or 167.6%, increase in the gain on sale

## **Table of Contents**

of residential mortgage loans for the twelve months ended December 31, 2012, as compared to the same period in 2011. During 2012, the Corporation experienced a surge in the volume of residential mortgage loan originations, as the low interest rate climate spurred on another refinancing boom.

Non-interest expense for the twelve months ended December 31, 2012, was \$74.9 million, an increase of \$13.2 million, or 21.3%, as compared to the same period in 2011. Contributing to this increase were a \$6.3 million increase in salaries and employee benefits and a \$2.1 million increase in due diligence and merger-related expenses. During 2012, the Corporation completed two transactions which not only accounted for the due diligence and merger-related expense increase, but also added overhead costs in the form of salaries and employee benefits as well as occupancy costs related to the new employees and facilities.

## **Components of Net Income**

Net income is comprised of five major elements:

**Net Interest Income**, or the difference between the interest income earned on loans, leases and investments and the interest expense paid on deposits and borrowed funds;

**Provision For Loan and Lease Losses**, or the amount added to the Allowance to provide for estimated inherent losses on portfolio loans and leases;

**Non-Interest Income**, which is made up primarily of wealth management revenue, gains and losses from the sale of residential mortgage loans, gains and losses from the sale of available for sale investment securities and other fees from loan and deposit services;

**Non-Interest Expense**, which consists primarily of salaries and employee benefits, occupancy, intangible asset amortization, professional fees and other operating expenses; and

**Income Taxes**, which include state and federal jurisdictions.



**Table of Contents****Net Interest Income****Rate/Volume Analyses (Tax-equivalent Basis)\***

The rate volume analysis in the table below analyzes dollar changes in the components of interest income and interest expense as they relate to the change in balances (volume) and the change in interest rates (rate) of tax-equivalent net interest income for the years 2013 as compared to 2012 and 2012 as compared to 2011, allocated by rate and volume. The change in interest income / expense due to both volume and rate has been allocated to changes in volume.

<i>(dollars in thousands)</i> increase/(decrease)	Year Ended December 31,					
	2013 Compared to 2012			2012 Compared to 2011		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest Income:</b>						
Interest-bearing deposits with banks	\$ 13	\$ 18	\$ 31	\$ 18	\$ (6)	\$ 12
Investment securities taxable	(211)		(211)	306	(1,109)	(803)
Investment securities nontaxable	402	(80)	322	207	(234)	(27)
Loans and leases	7,538	(2,498)	5,040	3,384	(3,798)	(414)
<b>Total interest income</b>	<b>7,742</b>	<b>(2,560)</b>	<b>5,182</b>	<b>3,915</b>	<b>(5,147)</b>	<b>(1,232)</b>
<b>Interest expense:</b>						
Savings, NOW and market rate accounts	345	(856)	(511)	444	(1,133)	(689)
Wholesale non-maturity deposits	(20)	(17)	(37)	(69)	14	(55)
Wholesale time deposits	(16)	34	18	(139)	(94)	(233)
Time deposits	(257)	(487)	(744)	(361)	(417)	(778)
Borrowed funds long-term	(375)	(1,516)	(1,891)	88	(1,403)	(1,315)
Borrowed funds short-term	6	(2)	4	5	(8)	(3)
<b>Total interest expense</b>	<b>(317)</b>	<b>(2,844)</b>	<b>(3,161)</b>	<b>(32)</b>	<b>(3,041)</b>	<b>(3,073)</b>
<b>Interest differential</b>	<b>\$ 8,059</b>	<b>\$ 284</b>	<b>\$ 8,343</b>	<b>\$ 3,947</b>	<b>\$ (2,106)</b>	<b>\$ 1,841</b>

\* The tax rate used in the calculation of the tax-equivalent income is 35%.

**Table of Contents****Analysis of Interest Rates and Interest Differential**

The table below presents the major asset and liability categories on an average daily basis for the periods presented, along with tax-equivalent interest income and expense and key rates and yields:

	For the Year Ended December 31,								
	2013			2012			2011		
	Average	Average	Average	Average	Average	Average	Average	Average	Average
(dollars in thousands)	Balance	Interest Income/Expense	Rates Earned/Paid	Balance	Interest Income/Expense	Rates Earned/Paid	Balance	Interest Income/Expense	Rates Earned/Paid
<b>Assets:</b>									
Interest-bearing deposits with banks	\$ 67,124	\$ 158	0.24%	\$ 60,389	\$ 127	0.21%	\$ 52,390	\$ 115	0.22%
<b>Investment securities available for sale:</b>									
Taxable	282,978	3,849	1.36%	299,598	4,060	1.36%	281,970	4,868	1.73%
Tax Exempt	37,890	588	1.55%	16,685	302	1.81%	10,239	329	3.21%
Total investment securities available for sale	320,868	4,437	1.38%	316,283	4,362	1.38%	292,209	5,197	1.78%
Investment securities trading	2,106	73	3.47%	1,431	37	2.59%	1,339	32	2.39%
Loans and leases <sup>(1)(2)(3)</sup>	1,455,284	74,180	5.10%	1,310,883	69,140	5.27%	1,250,071	69,554	5.56%
Total interest-earning assets	1,845,382	78,848	4.27%	1,688,986	73,666	4.36%	1,596,009	74,898	4.69%
Cash and due from banks	12,946			12,890			12,078		
Allowance for loan and lease losses	(14,800)			(13,469)			(11,397)		
Other assets	150,972			144,594			134,996		
Total assets	\$ 1,994,500			\$ 1,833,001			\$ 1,731,686		
<b>Liabilities:</b>									
Savings, NOW, and market rate accounts	\$ 955,977	1,757	0.18%	\$ 828,675	2,268	0.27%	\$ 722,850	2,957	0.41%
Wholesale non-maturity deposits	41,564	132	0.32%	46,815	169	0.36%	67,793	224	0.33%
Wholesale time deposits	14,210	106	0.75%	17,256	88	0.51%	30,429	321	1.05%
Time deposits	162,397	763	0.47%	195,778	1,507	0.77%	232,084	2,285	0.98%

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Total interest-bearing deposits	1,174,148	2,758	0.23%	1,088,524	4,032	0.37%	1,053,156	5,787	0.55%
Subordinated debentures				18,327	931	5.08%	22,500	1,123	4.99%
Junior subordinated debentures							11,580	1,050	9.06%
Short-term borrowings	16,457	25	0.15%	13,525	21	0.16%	11,380	25	0.21%
FHLB advances and other borrowings	167,089	2,644	1.58%	163,888	3,604	2.20%	145,421	3,676	2.53%
Total interest-bearing liabilities	1,357,694	5,427	0.40%	1,284,264	8,588	0.67%	1,244,037	11,661	0.94%
Non-interest-bearing deposits	400,254			329,631			287,553		
Other liabilities	24,502			25,242			23,573		
Total non-interest-bearing liabilities	424,756			354,873			311,126		
Total liabilities	1,782,450			1,639,137			1,555,163		
Shareholders equity	212,050			193,864			176,523		
Total liabilities and shareholders equity	\$ 1,994,500			\$ 1,833,001			\$ 1,731,686		
Net interest spread			3.87%			3.69%			3.75%
Effect of non-interest-bearing sources			0.11%			0.16%			0.21%
Net interest income/margin on earning assets		\$ 73,421	3.98%		\$ 65,078	3.85%		\$ 63,237	3.96%
Tax-equivalent adjustment (tax rate 35%)		\$ 431	0.02%		\$ 343	0.02%		\$ 336	0.02%

(1) Non-accrual loans have been included in average loan balances, but interest on non-accrual loans has not been included for purposes of determining interest income.

(2) Includes portfolio loans and leases and loans held for sale.

(3) Interest on loans and leases includes deferred (costs) fees of \$(82), \$(12) and \$24 for the years ended December 31, 2013, 2012 and 2011, respectively.

---

**Table of Contents****Tax-Equivalent Net Interest Income and Margin - 2013 Compared to 2012**

The tax-equivalent net interest margin increased 13 basis points to 3.98% for the twelve months ended December 31, 2013, as compared to 3.85%, for the same period in 2012.

Tax-equivalent net interest income for the twelve months ended December 31, 2013 of \$73.4 million, was \$8.3 million, or 12.8%, higher than the tax-equivalent net interest income of \$65.1 million for the same period in 2012. Largely responsible for the increase was the \$144.4 million increase in average loans and leases between the periods as the \$76.6 million of loans acquired from FBD in November of 2012 were supplemented by strong organic loan growth during 2013. Partially offsetting the increase in average loans and leases was an \$85.6 million increase in interest-bearing deposits, a portion of which were acquired from FBD near the end of 2012. The accretion of the fair value marks related to loans acquired in the FKB and FBD transactions increased the tax-equivalent net interest margin by 17 basis points for the twelve months ended December 31, 2013, as compared to 10 basis points for the same period in 2012. The tax-equivalent rate paid on interest-bearing deposits declined 14 basis points for the twelve months ended December 31, 2013, to 0.23%, while the yield earned on loans and leases declined 17 basis points, to 5.10%. Although the decline in tax-equivalent yield earned on loans and leases outpaced the decline in tax-equivalent rate paid on interest-bearing deposits, the increase in the volume of loans and leases between the periods outpaced that of interest-bearing deposits by \$58.8 million.

In addition to the strong loan growth experienced during 2013, the prepayment of the Corporation's \$22.5 million of subordinated debt during the third and fourth quarters of 2012 along with the prepayment of \$20.0 million of higher-rate FHLB borrowings during the first quarter of 2013 contributed to the reduction in tax-equivalent rate paid on interest-bearing liabilities.

**Tax-Equivalent Net Interest Income and Margin 2012 Compared to 2011**

The tax-equivalent net interest margin declined 11 basis points to 3.85% for the twelve months ended December 31, 2012, as compared to 3.96%, for the same period in 2011.

Tax-equivalent net interest income for the twelve months ended December 31, 2012 of \$65.1 million, was \$1.9 million, or 2.9%, higher than the tax-equivalent net interest income of \$63.2 million for the same period in 2011. The accretion of the fair value marks related to loans acquired in the FKB and FBD transactions increased the tax-equivalent net interest margin by 10 basis points for the twelve months ended December 31, 2012, as compared to 9 basis points for the same period in 2011. Although the decline in tax-equivalent yield earned on interest-bearing assets outpaced the decline in tax-equivalent rate paid on interest-bearing liabilities, there was a \$93.0 million increase in average interest-earning assets, compared to only a \$40.2 million increase in average interest-bearing liabilities between the periods.

The significant growth in average interest-earning assets included a \$60.8 million increase in average loans, much of which was the result of loan originations, as opposed to the acquisition of loans from FBD, which occurred midway through the fourth quarter of 2012. In addition, the prepayment of the Corporation's \$22.5 million of subordinated debt during the third and fourth quarters of 2012 contributed to the reduction in tax-equivalent rate paid on interest-bearing liabilities.

**Table of Contents****Tax-Equivalent Net Interest Margin Quarterly Comparison**

The tax-equivalent net interest margin and related components for the past five quarters are shown in the table below:

<b>Quarter</b>	<b>Year</b>	<b>Earning-Asset Yield</b>	<b>Interest-Bearing Liability Cost</b>	<b>Net Interest Spread</b>	<b>Effect of Non-Interest-Bearing Sources</b>	<b>Tax-Equivalent Net Interest Margin</b>
4 <sup>th</sup>	2013	4.33%	0.40%	3.93%	0.10%	4.03%
3 <sup>rd</sup>	2013	4.33%	0.38%	3.95%	0.10%	4.05%
2 <sup>nd</sup>	2013	4.27%	0.39%	3.88%	0.10%	3.98%
1 <sup>st</sup>	2013	4.16%	0.43%	3.73%	0.12%	3.85%
4 <sup>th</sup>	2012	4.27%	0.54%	3.73%	0.13%	3.86%

**Interest Rate Sensitivity**

The Corporation actively manages its interest rate sensitivity position. The objectives of interest rate risk management are to control exposure of net interest income to risks associated with interest rate movements and to achieve sustainable growth in net interest income. The Corporation's Asset Liability Committee (ALCO), using policies and procedures approved by the Corporation's Board of Directors, is responsible for the management of the Corporation's interest rate sensitivity position. The Corporation manages interest rate sensitivity by changing the mix, pricing and re-pricing characteristics of its assets and liabilities, through the management of its investment portfolio, its offerings of loan and selected deposit terms and through wholesale funding. Wholesale funding consists of multiple sources including borrowings from the FHLB, the Federal Reserve Bank of Philadelphia's discount window, certificates of deposit from institutional brokers, Certificate of Deposit Account Registry Service (CDARS), Insured Network Deposit (IND) Program, Charity Deposits Corporation (CDC) (formerly known as Institutional Deposit Corporation (IDC)), Insured Cash Sweep (ICS) and Pennsylvania Local Government Investment Trust (PLGIT).

The Corporation uses several tools to manage its interest rate risk including interest rate sensitivity analysis, or gap analysis, market value of portfolio equity analysis, interest rate simulations under various rate scenarios and tax-equivalent net interest margin reports. The results of these reports are compared to limits established by the Corporation's ALCO policies and appropriate adjustments are made if the results are outside the established limits.

The following table demonstrates the annualized result of an interest rate simulation and the estimated effect that a parallel interest rate shift, or "shock", in the yield curve and subjective adjustments in deposit pricing, might have on the Corporation's projected net interest income over the next 12 months.

This simulation assumes that there is no growth in interest-earning assets or interest-bearing liabilities over the next twelve months. The changes to net interest income shown below are in compliance with the Corporation's policy guidelines.

**Summary of Interest Rate Simulation**

*(dollars in thousands)*

**December 31, 2013  
Estimated Change  
In Net Interest**

	<b>Income Over Next 12 Months</b>	
<b>Change in Interest Rates</b>		
+300 basis points	\$ 6,289	8.19%
+200 basis points	\$ 3,537	4.61%
+100 basis points	\$ 1,146	1.49%
-100 basis points	\$ (1,868)	(2.43)%

## **Table of Contents**

The interest rate simulation above suggests that the Corporation's balance sheet as of December 31, 2013 is asset sensitive, and that an increase in interest rates will have a positive impact on net interest income over the next 12 months while a decrease in interest rates will negatively impact net interest income. In the above simulation, net interest income will increase if rates increase 100, 200 or 300 basis points. Because the Corporation's internal prime loan rate is set, as of December 31, 2013, at 3.99%, or 74 basis points above the Wall Street Journal Prime Rate of 3.25%, a 100 basis point increase in interest rates would have a less significant effect than it would had the Corporation not set this prime rate limit. The 100 basis point decrease scenario shows a \$1.86 million, or 2.43%, decrease in net interest income over the next twelve months as many of the Corporation's liabilities bear rates of interest below 1.00% and therefore would not be able to sustain the entire decrease.

The interest rate simulation is an estimate based on assumptions, which are based on past behavior of customers, along with expectations of future behavior relative to interest rate changes. In today's uncertain economic environment and the current extended period of very low interest rates, the reliability of the Corporation's interest rate simulation model is more uncertain than in other periods. Actual customer behavior may be significantly different than expected behavior, which could cause an unexpected outcome and may result in lower net interest income.

## **Gap Analysis**

The interest sensitivity, or gap analysis, identifies interest rate risk by showing repricing gaps in the Corporation's balance sheet. All assets and liabilities are reflected based on behavioral sensitivity, which is usually the earliest of either: repricing, maturity, contractual amortization, prepayments or likely call dates. Non-maturity deposits, such as NOW, savings and money market accounts are spread over various time periods based on the expected sensitivity of these rates considering liquidity and the investment preferences of the Corporation. Non-rate-sensitive assets and liabilities are spread over time periods to reflect the Corporation's view of the maturity of these funds.

**Table of Contents**

Non-maturity deposits (demand deposits in particular), are recognized by the Bank's regulatory agencies to have different sensitivities to interest rate environments. Consequently, it is an accepted practice to spread non-maturity deposits over defined time periods in order to capture that sensitivity. Commercial demand deposits are often in the form of compensating balances, and fluctuate inversely to the level of interest rates; the maturity of these deposits is reported as having a shorter life than typical retail demand deposits. Additionally, the Bank's regulatory agencies have suggested distribution limits for non-maturity deposits. However, the Corporation has taken a more conservative approach than these limits would suggest by forecasting these deposit types with a shorter maturity. The following table presents the Corporation's gap analysis as of December 31, 2013:

<i>(dollars in millions)</i>	<b>0 to 90 Days</b>	<b>91 to 365 Days</b>	<b>1 - 5 Years</b>	<b>Over 5 Years</b>	<b>Non-Rate Sensitive</b>	<b>Total</b>
<b>Assets:</b>						
Interest-bearing deposits with banks	\$ 67.6	\$	\$	\$	\$	\$ 67.6
Investment securities <sup>(1)</sup>	52.5	52.8	134.4	49.5		289.2
Loans and leases <sup>(2)</sup>	430.6	193.3	660.0	264.7		1,548.6
Allowance					(15.5)	(15.5)
Cash and due from banks					13.5	13.5
Other assets					158.3	158.3
<b>Total assets</b>	<b>\$ 550.7</b>	<b>\$ 246.1</b>	<b>\$ 794.4</b>	<b>\$ 314.2</b>	<b>\$ 156.3</b>	<b>\$ 2,061.7</b>
<b>Liabilities and shareholders' equity:</b>						
Demand, non-interest-bearing	\$ 28.1	\$ 84.4	\$ 120.5	\$ 193.6	\$	\$ 426.6
Savings, NOW and market rate	67.6	202.9	459.4	216.4		946.3
Time deposits	38.8	66.4	35.6			140.8
Wholesale non-maturity deposits	42.9					42.9
Wholesale time deposits	8.1	0.4	26.1			34.6
Short-term borrowings	10.9					10.9
FHLB advances and other borrowings	42.4	1.2	156.5	5.5		205.6
Other liabilities					24.0	24.0
Shareholders' equity	8.2	24.6	131.4	65.8		230.0
<b>Total liabilities and shareholders' equity</b>	<b>\$ 247.0</b>	<b>\$ 379.9</b>	<b>\$ 929.5</b>	<b>\$ 481.3</b>	<b>\$ 24.0</b>	<b>\$ 2,061.7</b>
Interest-earning assets	\$ 550.7	\$ 246.1	\$ 794.4	\$ 314.2	\$	\$ 1,905.4
Interest-bearing liabilities	210.7	270.9	677.6	221.9		1,381.1
Difference between interest-earning assets and interest-bearing liabilities	\$ 340.0	\$ (24.8)	\$ 116.8	\$ 92.3	\$	\$ 524.3
Cumulative difference between interest earning assets and interest-bearing liabilities	\$ 340.0	\$ 315.2	\$ 432.0	\$ 524.3	\$	\$ 524.3
Cumulative earning assets as a % of cumulative interest bearing liabilities	261%	165%	137%	138%		



- (1) *Investment securities include available for sale and trading.*
- (2) *Loans include portfolio loans and leases and loans held for sale.*

The table above indicates that the Corporation is asset sensitive and should experience an increase in net interest income in the near term, if interest rates rise. Accordingly, if rates decline, net interest income should decline. Actual results may differ from expected results for many reasons including market reactions, competitor responses, customer behavior and/or regulatory actions.

#### **Fair Value Adjustments Impacting the Statement of Income**

The following table details the actual effect for the twelve month periods ended December 31, 2013, 2012 and 2011, and the projected effect, for each of the five years ending December 31, 2018, and thereafter, of the accretable and amortizable fair value adjustments attributable to the FKF merger and the FBD transaction, on net

**Table of Contents**

interest income, net non-interest income and pretax income. The projected accretion and amortization is subject to change in future periods related to, among other things, changes in the Corporation's estimates of loan cash flows, deposit maturities, loan prepayments, and prepayments of FHLB advances.

	Income Statement Effect	Actual For the Twelve Months Ended December 31, For the Twelve Months				Projected Ending December 31, 2018 Thereafter				
		2011	2012	2013	2014	2015	2016	2017	2018	Thereafter
<b>Interest income/expense:</b>										
Loans	Income	\$ 1,548	\$ 1,706	\$ 3,064	\$ 2,019	\$ 1,310	\$ 829	\$ 525	\$ 350	\$ 2,486
Investment securities	Expense	(570)	(630)							
Deposits	Income	545	391	349	23					
FHLB advances	Income	552	442	150	121	121	121	121	9	
Jr. subordinated debentures	Income	55								
<b>Net interest income</b>		2,130	1,909	3,563	2,163	1,431	950	646	359	2,486
<b>Non-interest income/expense:</b>										
Premises and equipment	Expense	93	93	112	111	111	111	111	102	1,288
Other liabilities	Income		(76)	(39)						
<b>Net non-interest expense</b>		93	17	73	111	111	111	111	102	1,288
<b>Pretax income effect</b>		\$ 2,037	\$ 1,892	\$ 3,490	\$ 2,052	\$ 1,320	\$ 839	\$ 535	\$ 257	\$ 1,198

**Provision for Loan and Lease Losses****Loans Acquired in Mergers and Acquisitions**

In accordance with GAAP, the loans acquired from FKF and FBD were recorded at their fair value with no carryover of the previously associated allowance for loan loss.

Certain loans were acquired which exhibited deteriorated credit quality since origination and for which the Corporation does not expect to collect all contractual payments. Accounting for these *purchased credit-impaired* loans is done in accordance with ASC 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. The loans were recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition on these loans is based on a reasonable expectation about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral indeterminate, remain on non-accrual status and have no accretable yield.

Management evaluates purchased credit-impaired loans individually for further impairment. The balance of the Corporation's loan and lease portfolio is evaluated on either an individual basis or on a collective basis for impairment. Refer to Notes 4-F and 4-H in the Notes to Consolidated Financial Statements for a more information regarding the Corporation's impaired loans and leases.

**General Discussion of the Allowance for Loan and Lease Losses**

The balance of the allowance for loan and lease losses is determined based on the Corporation's review and evaluation of the loan and lease portfolio in relation to past loss experience, the size and composition of the portfolio, current economic events and conditions, and other pertinent factors, including the Corporation's assumptions as to future delinquencies, recoveries and losses.

## Table of Contents

Increases to the Allowance are implemented through a corresponding Provision (expense) in the Corporation's statement of income. Loans and leases deemed uncollectible are charged against the Allowance. Recoveries of previously charged-off amounts are credited to the Allowance.

While the Corporation considers the Allowance to be adequate, based on information currently available, future additions to the Allowance may be necessary due to changes in economic conditions or the Corporation's assumptions as to future delinquencies, recoveries and losses and the Corporation's intent with regard to the disposition of loans. In addition, the Pennsylvania Department of Banking and the Federal Reserve Bank of Philadelphia, as an integral part of their examination process, periodically review the Corporation's Allowance.

The Corporation's Allowance is comprised of four components that are calculated based on various independent methodologies. All components of the Allowance are based on Management's estimates. These estimates are summarized earlier in this document under the heading "Critical Accounting Policies, Judgments and Estimates."

The four components of the Allowance are as follows:

**Specific Loan Evaluation Component** Loans and leases for which Management has reason to believe it is probable that it will not be able to collect all contractually due amounts of principal and interest are evaluated for impairment on an individual basis and a specific allocation of the Allowance is assigned, if necessary.

**Historical Charge-Off Component** Homogeneous pools of loans are evaluated to determine average historic charge-off rates. Management applies a rolling, twelve quarter, charge-off history to determine these average charge-off rates.

**Qualitative Factors Component** Various qualitative factors are considered as they relate to the different homogeneous loan pools in order to adjust the historic charge-off rates, if necessary. These factors may include delinquency trends, economic conditions, loan terms, credit grades, concentrations of credit, regulatory environment and other relevant factors. The resulting adjustments are combined with the historic charge-off rates and result in an allocation rate for each homogeneous loan pool.

**Unallocated Component** This amount represents the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating the specific, historical, and qualitative losses in the portfolio discussed above. There are many factors considered, such as the inherent delay in obtaining information regarding a customer's financial information or changes in their business condition, the judgmental nature of loan and lease evaluations, the delay in interpreting economic trends, and the judgmental nature of collateral assessments.

As part of the process of allocating the Allowance to the different segments of the loan and lease portfolio, Management considers certain credit quality indicators. For the commercial mortgage, construction and commercial and industrial loan segments, periodic reviews of the individual loans are performed by both in-house employees as well as an external loan review service. The results of these reviews are reflected in the risk grade assigned to each loan. These internally assigned grades are as follows:

**Pass** Loans considered satisfactory with no indications of deterioration.

**Special mention** Loans classified as special mention have a potential weakness that deserves Management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard** Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on

**Table of Contents**

the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loan balances classified as doubtful have been reduced by partial charge-offs and are carried at their net realizable values.

Consumer credit exposure, which includes residential mortgages, home equity lines and loans, leases and consumer loans, are assigned a credit risk profile based on payment activity (that is, their delinquency status).

Refer to Note 4-F in the Notes to Consolidated Financial Statements for details regarding credit quality indicators associated with the Corporation's loan and lease portfolio.

**Portfolio Segmentation** The Corporation's loan and lease portfolio is divided into specific segments of loans and leases having similar characteristics. These segments are as follows:

Commercial mortgage

Home equity lines and loans

Residential mortgage

Construction

Commercial and industrial

Consumer

Leases

Refer to Note 4 in the Notes to Consolidated Financial Statements and page 41 of this MD&A under the heading Portfolio Loans and Leases for details of the Corporation's loan and lease portfolio, broken down by portfolio segment.

**Impairment Measurement** In accordance with guidance provided by ASC 310-10, Accounting by Creditors for Impairment of a Loan, the Corporation employs one of three methods to determine and measure impairment:

the Present Value of Future Cash Flow Method;

the Fair Value of Collateral Method;

the Observable Market Price of a Loan Method.

Loans and leases for which there is an indication that all contractual payments may not be collectible are evaluated for impairment on an individual basis. Loans that are evaluated on an individual basis include non-performing loans, troubled debt restructurings and purchased credit-impaired loans.

**Nonaccrual Loans** In general, loans and leases that are delinquent on contractually due principal or interest payments for more than 89 days are placed on nonaccrual status and any unpaid interest is reversed as a charge to interest income. When the loan resumes payment, all payments (principal and interest) are applied to reduce principal. After a period of six months of satisfactory performance, the loan may be placed back on accrual status. Any interest payments received during the nonaccrual period that had been applied to reduce principal are reversed and recorded as a deferred fee which accretes to interest income over the remaining term of the loan or lease. In certain cases, the Corporation may have information about a particular loan or lease that may indicate a future disruption or curtailment of contractual payments. In these cases, the Corporation will preemptively place the loan or lease on nonaccrual status.

**Troubled Debt Restructurings ( TDRs )** The Corporation follows guidance provided by ASC 310-40, Troubled Debt Restructurings by Creditors. A restructuring of a debt constitutes a TDR if the creditor, for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it

## **Table of Contents**

would not otherwise consider in the normal course of business. A concession may include an extension of repayment terms which would not normally be granted, a reduction of interest rate or the forgiveness of principal and/or accrued interest. If the debtor is experiencing financial difficulty and the creditor has granted a concession, the Corporation will make the necessary disclosures related to the TDR. In certain cases, a modification may be made in an effort to retain a customer who is not experiencing financial difficulty. This type of modification is not considered to be a TDR. Once a loan or lease has been modified and is considered a TDR, it is reported as an impaired loan or lease. If the loan or lease deemed a TDR has performed for at least six months at the level prescribed by the modification, it is not considered to be non-performing; however, it will generally continue to be reported as impaired. Loans and leases that have performed for at least six months are reported as TDRs in compliance with modified terms.

Refer to Note 4-G in the Notes to Consolidated Financial Statements for more information regarding the Corporation's TDRs.

**Charge-off Policy** The Corporation's charge-off policy is that, on a periodic basis, not less often than quarterly, delinquent and non-performing loans that exceed the following limits are considered for charge-off:

Open-ended consumer loans exceeding 180 days past due.

Closed-ended consumer loans exceeding 120 days past due.

All commercial/business purpose loans exceeding 180 days past due.

All leases exceeding 120 days past due.

Any other loan or lease, for which the Corporation has reason to believe collectability is unlikely, and for which sufficient collateral does not exist, is also charged off.

Refer to Notes 4-F in the Notes to Consolidated Financial Statements for more information regarding the Corporation's charge-offs and factors which influenced Management's judgment with respect thereto.

## **Asset Quality and Analysis of Credit Risk**

As of December 31, 2013, total non-performing loans and leases of \$10.5 million representing 0.68% of portfolio loans and leases, as compared to \$14.8 million, or 1.06% of portfolio loans and leases, as of December 31, 2012. The \$4.2 million decrease in non-performing loans and leases was primarily related to a \$3.2 million decrease in nonperforming construction loans and a \$1.5 million decrease in nonperforming home equity loans and lines. These decreases were partially offset by an increase of \$630 thousand nonperforming residential mortgage loans between the dates.

The Provision for each of the twelve month periods ended December 31, 2013, 2012 and 2011 was \$3.6 million, \$4.0 million and \$6.1 million, respectively. As of December 31, 2013, the Allowance of \$15.5 million represents 1.00% of portfolio loans and leases, as compared to the Allowance, as of December 31, 2012, of \$14.4 million, which represented 1.03% of portfolio loans and leases as of that date. The decrease in the Allowance, as a percentage of portfolio loans and leases, from December 31, 2012 to December 31, 2013, is reflective of Management's analysis of



qualitative factors affecting the loan portfolio, the reduced level of nonperforming loans and leases, partially offset by the growth of the Corporation's loan portfolio.

As of December 31, 2013, the Corporation had other real estate owned ( OREO ) valued at \$855 thousand, as compared to \$906 thousand as of December 31, 2012. The five properties comprising the balance as of December 31, 2013 include three residential properties, one commercial property, and an undeveloped parcel of land, the latter of which is under agreement of sale and is expected to close during the second quarter of 2014. All properties are recorded at their estimated fair values less costs to sell.

**Table of Contents**

As of December 31, 2013, the Corporation had \$9.0 million of TDRs, of which \$7.3 million are in compliance with the modified terms for six months or greater, and hence, excluded from non-performing loans and leases. As of December 31, 2012, the Corporation had \$11.1 million of TDRs, of which \$8.0 million were in compliance with the modified terms.

Impaired loans and leases are those for which it is probable that the Corporation will not be able to collect all scheduled principal and interest payments in accordance with the original terms of the loans and leases. Included in impaired loans and leases are non-accrual loans and leases and TDRs. Purchased credit-impaired loans are not included in impaired loan and lease totals. As of December 31, 2013, the Corporation had \$17.6 million of impaired loans and leases, as compared to impaired loans and leases of \$22.0 million as of December 31, 2012. Refer to Notes 4-H in the Notes to Consolidated Financial Statements for more information regarding the Corporation's impaired loans and leases.

The Corporation continues to be diligent in its credit underwriting process and very proactive with its loan review process, including the services of an independent outside loan review firm, which helps identify developing credit issues. These proactive steps include the procurement of additional collateral (preferably outside the current loan structure) whenever possible and frequent contact with the borrower. Management believes that timely identification of credit issues and appropriate actions early in the process serve to mitigate overall losses.

**Non-Performing Assets, TDRs and Related Ratios As of or For the Twelve Months Ended December 31,**

<i>(dollars in thousands)</i>	2013	2012	2011	2010	2009
Non-accrual loans and leases	\$ 10,530	\$ 14,040	\$ 14,315	\$ 9,497	\$ 6,246
Loans 90 days or more past due and still accruing		728		10	668
<b>Total non-performing loans and leases</b>	<b>10,530</b>	<b>14,768</b>	<b>14,315</b>	<b>9,507</b>	<b>6,914</b>
Other real estate owned	855	906	549	2,527	1,025
<b>Total non-performing assets</b>	<b>\$ 11,385</b>	<b>\$ 15,674</b>	<b>\$ 14,864</b>	<b>\$ 12,034</b>	<b>\$ 7,939</b>
Troubled debt restructurings included in non-performing assets	\$ 1,699	\$ 3,106	\$ 4,300	\$ 1,879	\$ 2,274
TDRs in compliance with modified terms	7,277	8,008	7,166	4,693	1,622
<b>Total TDRs</b>	<b>\$ 8,976</b>	<b>\$ 11,114</b>	<b>\$ 11,466</b>	<b>\$ 6,572</b>	<b>\$ 3,896</b>
Allowance for loan and lease losses to non-performing loans and leases	147.3%	97.7%	89.1%	108.1%	150.8%
Non-performing loans and leases to total loans and leases	0.68%	1.06%	1.11%	0.79%	0.78%
Allowance for loan losses to total portfolio loans and leases	1.00%	1.03%	0.98%	0.86%	1.18%

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Non-performing assets to total assets	0.55%	0.77%	0.84%	0.69%	0.64%
Net loan and lease charge-offs/average loans and leases	0.09%	0.18%	0.29%	0.96%	0.77%
Period end portfolio loans and leases	\$ 1,547,185	\$ 1,398,456	\$ 1,295,392	\$ 1,196,717	\$ 885,739
Average portfolio loans and leases	\$ 1,453,555	\$ 1,307,140	\$ 1,250,071	\$ 1,037,158	\$ 882,956
Allowance for loan and lease losses	\$ 15,515	\$ 14,425	\$ 12,753	\$ 10,275	\$ 10,424
Interest income that would have been recorded on impaired loans if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination	\$ 1,074	\$ 1,417	\$ 1,445	\$ 838	\$ 322
Interest income on impaired loans included in net income for the period	\$ 365	\$ 507	\$ 550	\$ 436	\$ 41

**Table of Contents**

As of December 31, 2013, the Corporation is not aware of any loan or lease, other than those disclosed in the table above, for which it has any serious doubt as to the borrower's ability to pay in accordance with the terms of the loan.

**Summary of Changes in the Allowance for Loan and Lease Losses**

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Balance, January 1	\$ 14,425	\$ 12,753	\$ 10,275	\$ 10,424	\$ 10,332
<b>Charge-offs:</b>					
Consumer	(194)	(96)	(92)	(456)	(45)
Commercial and industrial	(781)	(458)	(633)	(7,019)	(1,933)
Real estate	(891)	(818)	(1,732)	(689)	(53)
Construction	(737)	(1,131)	(1,174)	(135)	(382)
Leases	(376)	(364)	(1,017)	(2,395)	(4,957)
Total charge-offs	(2,979)	(2,867)	(4,648)	(10,694)	(7,370)
<b>Recoveries:</b>					
Consumer	10	7	11	2	8
Commercial and industrial	65	143	307		
Real estate	105	79	190	15	1
Construction	24	15			
Leases	290	292	530	674	569
Total Recoveries	494	536	1,038	691	578
<b>Net charge-offs</b>	(2,485)	(2,331)	(3,610)	(10,003)	(6,792)
Provision for loan and lease losses	3,575	4,003	6,088	9,854	6,884
Balance, December 31	\$ 15,515	\$ 14,425	\$ 12,753	\$ 10,275	\$ 10,424
Ratio of net charge-offs to average portfolio loans outstanding	0.17%	0.18%	0.29%	0.96%	0.77%

**Table of Contents****Allocation of Allowance for Loan and Lease Losses**

The following table sets forth an allocation of the allowance for loan and lease losses by portfolio segment. The specific allocations in any particular portfolio segment may be changed in the future to reflect then-current conditions. Accordingly, the Corporation considers the entire allowance to be available to absorb losses in any portfolio segment.

	2013		2012		December 31, 2011		2010		2009	
		%		%		%		%		%
	Loans		Loans		Loans		Loans		Loans	
	to		to		to		to		to	
	Total		Total		Total		Total		Total	
(dollars in thousands)	Loans		Loans		Loans		Loans		Loans	
Allowance at end of period applicable to:										
Commercial mortgage	\$ 3,797	40.4%	\$ 3,907	39.1%	\$ 3,165	32.4%	\$ 2,534	32.2%	\$ 2,027	29.9%
Home equity lines and loans	2,204	12.3	1,857	13.9	1,707	16.0	1,563	18.1	1,228	20.1
Residential mortgage	2,446	19.4	2,024	20.6	1,592	23.7	843	21.9	697	12.5
Construction	845	3.0	1,019	1.9	1,384	4.1	633	3.8	652	4.4
Commercial and industrial	5,011	21.2	4,637	20.9	3,816	20.6	3,565	20.0	3,801	26.3
Consumer	259	1.1	189	1.3	119	0.9	115	1.0	125	1.4
Leases	604	2.6	493	2.3	532	2.3	766	3.0	1,403	5.4
Unallocated	349		299		438		256		491	
Total	\$ 15,515	100.0%	\$ 14,425	100.0%	\$ 12,753	100.0%	\$ 10,275	100.0%	\$ 10,424	100.0%

**Non-Interest Income****2013 Compared to 2012**

For the twelve months ended December 31, 2013, non-interest income was \$48.4 million, an increase of \$2.0 million from the \$46.4 million for the same period in 2012. Contributing to this increase was the \$5.4 million, or 18.1%, increase in fees for wealth management services from \$29.8 million for the twelve months ended December 31, 2012, to \$35.2 million for the same period in 2013. Substantially offsetting the increase in wealth management revenue was a \$2.6 million decrease in the gain on sale of residential mortgage loans and a \$1.4 million decrease in the gain on sale of available for sale investment securities.

The increase in wealth management services revenue is partially the result of a full year's impact of the wealth assets acquired in the May 2012 DTC acquisition, which initially added \$1.0 billion to the Corporation's assets under management, administration, supervision and brokerage, as compared to only a seven month impact in 2012. In addition, the success of the Wealth Management division's strategic initiatives, market appreciation and other new business between the dates helped increase the division's assets under management, administration, supervision and brokerage by \$605 million, to \$7.3 billion.

The decrease in the gain on sale of residential mortgage loans was the result of a sharp decline in the volume of residential mortgage loans originated for resale. For the twelve months ended December 31, 2013, the Corporation originated \$129.0 million of residential mortgage loans for resale, as compared to \$204.8 million for the same period in 2012. The decrease in the volume of residential mortgage loan originations was the result of rising interest rates, which substantially curtailed the refinancing boom that had occurred between the third quarter of 2012 and the second quarter of 2013.

---

**Table of Contents**

The decrease in the gain on sale of available for sale investment securities was related to the Corporation's effort to reduce the duration of its portfolio. The sale of these investments resulted in a net loss on sale of \$8 thousand for the twelve months ended December 31, 2013, as compared to a net gain on sale of \$1.4 million for the same period in 2012.

**2012 Compared to 2011**

For the twelve months ended December 31, 2012, non-interest income was \$46.4 million, an increase of \$12.3 million, or 36.2% from the \$34.1 million for the same period in 2011. Contributing to this increase was the \$8.1 million, or 37.5%, increase in fees for wealth management services from \$21.7 million for the twelve months ended December 31, 2011, to \$29.8 million for the same period in 2012. In addition, the gain on sale of residential mortgage loans increased \$4.2 million for the twelve months ended December 31, 2012 as compared to the same period in 2011.

The increase in wealth management fees was related to the May 15, 2012 acquisition of DTC, which initially increased the Corporation's wealth assets under management, administration, supervision and brokerage by \$1.0 billion. In addition, the Corporation experienced a full year's impact of the wealth assets acquired in the May 2011 acquisition of PWMG, which initially added \$1.1 billion of assets under management, administration, supervision and brokerage, as compared to only seven months' revenue in 2011. Wealth assets under management, administration, supervision and brokerage increased \$1.8 billion from \$4.8 billion as of December 31, 2011 to \$6.7 billion, as of December 31, 2012.

The increase in the gain on sale of residential mortgage loans was largely related to the volume of loan sales and, to a lesser extent, an increase in the yield on the sale. The Corporation experienced a significant increase in demand for residential mortgage loans as the low interest rate created a significant demand for residential mortgage loan refinancings. For the twelve months ended December 31, 2012, the Corporation sold \$204.8 million of residential mortgage loans, as compared to \$81.5 million for the same period in 2011.

**Non-Interest Expense****2013 Compared to 2012**

Non-interest expense for the twelve months ended December 31, 2013 was \$80.7 million, an increase of \$5.8 million, or 7.8%, as compared to the same period in 2012. The increase was comprised of increases of \$3.9 million and \$1.2 million in salaries and employee benefits and occupancy-related expenses, respectively. These personnel and facilities-related expenses were partially related to the full-service branch that opened in Bala Cynwyd at the end of 2012, a full year of staff and office space in connection with the May 2012 acquisition of DTC, increased stock-based compensation costs, along with annual salary increases. In addition, other operating expenses increased by \$2.6 million in 2013, as compared to 2012. The increase in other operating expenses was related to increased telecommunication costs, information technology costs and deferred compensation expense. Refer to Note 20 in the Notes to Consolidated Financial Statements for further details regarding the increase in other operating expenses between the periods. Partially offsetting these cost increases was a \$744 thousand decrease in due diligence and merger-related expenses and a \$690 thousand gain on the curtailment of a nonqualified defined-benefit pension plan.

**2012 Compared to 2011**

Non-interest expense for the twelve months ended December 31, 2012 was \$74.9 million, an increase of \$13.2 million, or 21.3%, as compared to the same period in 2011. The increase was comprised of increases of \$6.3 million and \$916 thousand in salaries and employee benefits and occupancy-related expenses, respectively, which were

related to the staffing increase and office space additions that resulted from the DTC and PWMG acquisitions and, to a lesser extent, the FBD transaction, as well as the incentive-based compensation related to residential mortgage sales. In connection with the DTC and FBD transactions that occurred during 2012, due



---

**Table of Contents**

diligence and merger-related expenses increased by \$2.1 million between the periods. Refer to Note 22 in the Notes to Consolidated Financial Statements for further details regarding the \$2.9 million increase in other operating expenses between the periods.

**Secondary Market Sold-Loan Repurchase Demands**

In the course of originating residential mortgage loans and selling those loans in the secondary market, the Corporation makes various representations and warranties to the purchasers of the mortgage loans. Each residential mortgage loan originated by the Corporation is evaluated by an automated underwriting application, which verifies the underwriting criteria and certifies the loan's eligibility for sale to the secondary market. Any exceptions discovered during this process are remedied prior to sale. These representations and warranties also apply to underwriting the real estate appraisal opinion of value for the collateral securing these loans. Under the representations and warranties, failure by the Corporation to comply with the underwriting and appraisal standards could result in the Corporation's being required to repurchase the mortgage loan or to reimburse the investor for losses incurred (make whole requests) if such failure cannot be cured by the Corporation within the specified period following discovery. For the twelve months ended December 31, 2013, 2012 and 2011, the Corporation has received a limited number of investor repurchase demands and recorded a contingent liability for their settlement. The accruals related to investor repurchase demands totaled \$78 thousand, \$66 thousand and \$285 thousand for the twelve months ended December 31, 2013, 2012 and 2011, respectively, and were included in other non-interest expense.

**Income Taxes**

Income taxes for the twelve months ended December 31, 2013 were \$12.6 million as compared to \$11.1 million and \$9.5 million for the same periods in 2012 and 2011, respectively. The effective tax rate for the twelve month periods ended December 31, 2013, 2012 and 2011 was 34.0%, 34.3% and 32.7%, respectively. The slight decrease in the effective tax rate for the twelve months ended December 31, 2013, as compared to the rate for the same period in 2012, was primarily related to a change in method used to account for the Corporation's deferred compensation plan, which resulted in a tax benefit not previously recognized.

**Balance Sheet Analysis****Asset Changes**

Total assets as of December 31, 2013 increased to \$2.06 billion from \$2.04 billion as of December 31, 2012. The \$25.7 million increase was attributable to a \$148.7 million increase in portfolio loans and leases which was substantially offset by decreases of \$30.8 million in available for sale investment securities and \$94.6 million in cash and interest-bearing deposits with other banks. Cash flows from maturities, calls, and paydowns of investment securities, along with idle cash, were used to fund the loan originations during 2013.

**Investment Portfolio** The \$30.8 million decrease from December 31, 2012 to December 31, 2013 in available for sale investment securities was comprised of decreases in mortgage-related securities and U.S. government obligations of \$30.9 million and \$4.3 million, respectively, and increases in municipal obligations of \$6.6 million between the dates. This decrease was related to the Corporation's strategy of shortening the duration of the available for sale portfolio. As of December 31, 2013 and December 31, 2012, the Corporation's investment securities held in trading accounts were comprised of a deferred compensation trust which is invested in marketable securities whose diversification is at the discretion of the deferred compensation plan participants.



**Table of Contents**

The following table details the maturity and weighted average yield (3) of the available for sale investment portfolio (2) as of December 31, 2013:

<i>(dollars in thousands)</i>	<b>Maturing During 2014</b>	<b>Maturing From 2015 Through 2018</b>	<b>Maturing From 2019 Through 2023</b>	<b>Maturing After 2023</b>	<b>Total</b>
<b>U.S. Treasury securities:</b>					
Amortized cost	\$	\$ 102	\$	\$	\$ 102
Weighted average yield		1.03%			1.03%
<b>Obligations of the U.S. government and agencies:</b>					
Amortized cost		28,941	41,359	797	71,097
Weighted average yield		0.75%	1.20%	2.01%	1.03%
<b>State and political subdivisions<sup>(3)</sup>:</b>					
Amortized cost	7,359	19,348	10,433		37,140
Weighted average yield	0.60%	1.10%	1.60%		1.14%
<b>Mortgage-related securities<sup>(1)</sup>:</b>					
Amortized cost		2,044	36,345	125,118	163,507
Weighted average yield		2.17%	2.36%	2.34%	2.34%
<b>Other investment securities:</b>					
Amortized cost	500	1,400			1,900
Weighted average yield	1.25%	1.32%			1.30%
<b>Total amortized cost</b>	<b>\$ 7,859</b>	<b>\$ 51,835</b>	<b>\$ 88,137</b>	<b>\$ 125,915</b>	<b>\$ 273,746</b>
<b>Weighted average yield</b>	<b>0.64%</b>	<b>0.95%</b>	<b>1.73%</b>	<b>2.34%</b>	<b>1.83%</b>

<sup>(1)</sup> Mortgage-related securities are included in the above table based on their contractual maturity. However, mortgage-related securities, by design, have scheduled monthly principal payments which are not reflected in this table.

<sup>(2)</sup> Excluded from the above table is the Corporation's \$13.4 million investment in bond mutual funds, which has no stated maturity or constant stated yield.

<sup>(3)</sup> Weighted average yields on tax-exempt obligations have not been computed on a tax-equivalent basis.

The following table details the amortized cost of the available for sale investment portfolio as of the dates indicated:

<i>(dollars in thousands)</i>	Amortized Cost as of December 31,		
	2013	2012	2011
Obligations of the U.S. government and agencies	\$ 71,097	\$ 73,183	\$ 104,252
Obligations of the U.S. Treasury	102		
Obligations of state and political subdivisions	37,140	30,244	8,210
Mortgage-backed securities	119,044	128,537	95,713

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Collateralized mortgage obligations	44,463	62,116	32,418
Other investments	15,281	17,667	30,472
Total amortized cost	\$ 287,127	\$ 311,747	\$ 271,065

**Table of Contents****Portfolio Loans and Leases**

The table below details the loan portfolio as of the dates indicated:

<i>(dollars in thousands)</i>	<b>December 31,</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Commercial mortgage	\$ 625,341	\$ 546,358	\$ 419,130	\$ 385,615	\$ 265,023
Home equity lines & loans	189,571	194,861	207,917	216,853	177,863
Residential mortgage	300,243	288,212	306,478	261,983	110,653
Construction	46,369	26,908	52,844	45,403	38,444
Commercial & industrial	328,459	291,620	267,204	239,266	233,288
Consumer	16,926	17,666	11,429	12,200	12,717
Leases	40,276	32,831	30,390	35,397	47,751
<b>Total portfolio loans and leases</b>	<b>1,547,185</b>	<b>1,398,456</b>	<b>1,295,392</b>	<b>1,196,717</b>	<b>885,739</b>
Loans held for sale	1,350	3,412	1,588	4,838	3,007
<b>Total</b>	<b>\$ 1,548,535</b>	<b>\$ 1,401,868</b>	<b>\$ 1,296,980</b>	<b>\$ 1,201,555</b>	<b>\$ 888,746</b>

The following table summarizes the loan maturity distribution and interest rate sensitivity as of December 31, 2013. Excluded from the table are residential mortgage, home equity lines and loans and consumer loans:

<i>(dollars in thousands)</i>	<b>Maturing</b>			<b>Total</b>
	<b>Maturing During 2014</b>	<b>From 2015 Through 2018</b>	<b>Maturing After 2018</b>	
<b>Loan portfolio maturity:</b>				
Commercial and industrial	\$ 106,070	\$ 139,619	\$ 82,770	\$ 328,459
Construction	37,508	8,536	325	46,369
Commercial mortgage	20,720	265,003	339,618	625,341
Leases	2,615	37,661		40,276
<b>Total</b>	<b>\$ 166,913</b>	<b>\$ 450,819</b>	<b>\$ 422,713</b>	<b>\$ 1,040,445</b>
<b>Interest sensitivity on the above loans:</b>				
Loans with predetermined rates	\$ 35,517	\$ 358,580	\$ 196,287	\$ 590,384
Loans with adjustable or floating rates	131,396	92,239	226,426	450,061
<b>Total</b>	<b>\$ 166,913</b>	<b>\$ 450,819</b>	<b>\$ 422,713</b>	<b>\$ 1,040,445</b>

The list below identifies certain key characteristics of the Corporation's loan and lease portfolio. Refer to the loan and lease portfolio tables in Note 4 in the Notes to Consolidated Financial Statements and page 41 of this MD&A under the heading Portfolio Loans and Leases for further details.

**Portfolio Loans and Leases** The Corporation's \$1.55 billion loan and lease portfolio is predominantly based in the Corporation's traditional market areas of Chester, Delaware and Montgomery counties of Pennsylvania, New Castle county in Delaware, and in the greater Philadelphia area, none of which has experienced the real estate price appreciation and subsequent decline that many other areas of the country have experienced over the last ten years.

**Concentrations** The Corporation has a significant portion of its portfolio loans (excluding leases) in real estate-related loans. As of December 31, 2013, loans secured by real estate were \$1.16 billion or 75.1% of the total loan portfolio of \$1.55 billion. A predominant percentage of the Corporation's real estate exposure, both commercial and residential, is within Pennsylvania. The Corporation is aware of this concentration and mitigates this risk to the extent possible in many ways, including the

---

**Table of Contents**

underwriting and assessment of the borrower's capacity to repay, equity in the underlying real estate collateral and a review of a borrower's global cash flows. The Corporation has recourse against a substantial portion of the loans in the real estate portfolio.

In addition to loans secured by real estate, commercial and industrial loans comprise 21.2% of the total loan portfolio as of December 31, 2013.

**Construction** The construction portfolio of \$46.4 million accounts for 3.0% of the total loan and lease portfolio at December 31, 2013, an increase of \$19.5 million from December 31, 2012. The increase was largely due to an increase in multifamily construction loans in the Corporation's primary trade area. The construction loan segment of the portfolio, which consists of residential site development loans, commercial construction loans and loans for construction of individual homes, had a delinquency rate on performing loans, as of December 31, 2013, of 0.00%, as compared 3.09% as of December 31, 2012. Nonperforming construction loans comprised 1.79% of the construction segment of the portfolio as of December 31, 2013, as compared to 12.32% as of December 31, 2012.

**Residential Mortgages** Residential mortgage loans were \$300.2 million as of December 31, 2013, an increase of \$12.0 million from December 31, 2012. The portfolio increased as the Corporation originated more jumbo residential mortgage loans to high-net worth individuals, which were retained in the portfolio rather than being sold into the secondary market. The residential mortgage segment accounts for 19.4% of the total loan and lease portfolio as of December 31, 2013. The residential mortgage segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2013, of 0.27%, as compared 0.19% as of December 31, 2012. Nonperforming residential mortgage loans comprised 1.46% of the residential mortgage segment of the portfolio as of December 31, 2013, as compared to 1.30% as of December 31, 2012. The Corporation believes it is well protected with its collateral position on this portfolio.

**Commercial Mortgages** Commercial mortgages were \$625.3 million as of December 31, 2013, an increase of \$79.0 million from December 31, 2012. The Corporation has made a concerted effort, over several operating cycles, to attract strong commercial real estate entrepreneurs in its primary trade area. This effort has produced strong results. The commercial mortgage segment accounts for 40.4% of the total loan and lease portfolio as of December 31, 2013. The commercial mortgage segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2013, of 0.04%, as compared 0.15% as of December 31, 2012. Nonperforming commercial mortgage loans comprised 0.08% of the commercial mortgage segment of the portfolio as of December 31, 2013, as compared to 0.12% as of December 31, 2012. The borrowers comprising this segment of the portfolio generally have strong, global cash flows, which have remained stable in this tough economic environment. The Corporation continues to be able to attract quality borrowers in the commercial real estate space as other banks retreat due to credit issues.

**Commercial and Industrial** Commercial and industrial loans were \$328.5 million as of December 31, 2013, an increase of \$36.8 million from December 31, 2012. The increase was the result of new client acquisitions by recently hired commercial relationship managers. The commercial and industrial segment accounts for 21.2% of the total loan and lease portfolio as of December 31, 2013. The commercial and industrial segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2013, of 0.10%, as compared 0.15% as of December 31, 2012. Nonperforming commercial and industrial loans

comprised 1.08% of the commercial and industrial segment of the portfolio as of December 31, 2013, as compared to 1.20% as of December 31, 2012. The commercial and industrial segment of the portfolio consists of loans to privately held institutions, family businesses, non-profit institutions and private banking relationships. While certain of these loans are collateralized by real estate, others are collateralized by non-real estate business assets, including accounts receivable and inventory.



---

**Table of Contents**

**Home Equity Loans and Lines of Credit** Home equity loans and lines of credit were \$189.6 million as of December 31, 2013, a decrease of \$5.3 million from December 31, 2012. The low-rate residential mortgage loan environment was responsible for the decline in home equity products as many existing clients took the opportunity to consolidate floating rate home equity loans into first mortgages that were subsequently sold into the secondary market. The home equity loans and lines of credit segment accounts for 12.3% of the total loan and lease portfolio as of December 31, 2013. The home equity loans and lines of credit segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2013, of 0.11%, as compared 0.10% as of December 31, 2012. Nonperforming home equity loans and lines of credit comprised 0.67% of the home equity loans and lines of credit segment of the portfolio as of December 31, 2013, as compared to 1.43% as of December 31, 2012. The Corporation originates the majority of its home equity loans and lines of credit through its branch network.

**Consumer loans** Consumer loans were \$16.9 million as of December 31, 2013, a decrease of \$740 thousand from December 31, 2012. The consumer loan segment accounted for 1.1% of the total loan and lease portfolio as of December 31, 2013. The consumer loan segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2013, of 0.04%, as compared 0.08% as of December 31, 2012. Nonperforming consumer loans comprised 0.12% of the consumer segment of the portfolio as of December 31, 2013, as compared to 0.04% as of December 31, 2012.

**Leasing** Leases totaled \$40.3 million as of December 31, 2013, an increase of \$7.4 million from December 31, 2012. The lease segment of the portfolio accounted for 2.6% of the total loan and lease portfolio as of December 31, 2013. The leasing segment of the portfolio had a delinquency rate on performing leases, as of December 31, 2013, of 0.30%, as compared 0.14% as of December 31, 2012. Nonperforming leases comprised 0.06% of the leasing segment of the portfolio as of December 31, 2013, as compared to 0.13% as of December 31, 2012.

**Goodwill and Other Intangible Assets** An immaterial decrease of \$54 thousand in goodwill from December 31, 2012 to December 31, 2013 was the result of an adjustment in the value of deferred tax assets acquired in the DTC acquisition. See Note 2 in the Notes to Consolidated Financial Statements for additional details.

**FHLB Stock** The Corporation's investment in stock issued by the FHLB increased by \$893 thousand, from December 31, 2012 to December 31, 2013, as the increases in borrowings from the FHLB require additional purchases of stock.

**Mortgage Servicing Rights ( MSRs )** MSRs increased \$259 thousand to \$4.8 million as of December 31, 2013, from \$4.5 million as of December 31, 2012. This increase was the result of \$1.0 million of MSRs recorded during the twelve months ended December 31, 2013, partially offset by amortization of \$740 thousand and impairment of \$3 thousand during the period.

**Table of Contents**

The following table details activity related to mortgage servicing rights for the periods indicated:

<i>(dollars in thousands)</i>	<b>For the Twelve Months Ended or as of December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Mortgage originations	\$ 197,787	\$ 253,725	\$ 168,681
Mortgage loans sold:			
Servicing retained	\$ 127,914	\$ 201,352	\$ 75,232
Servicing released	1,067	3,461	6,230
<b>Total mortgage loans sold</b>	<b>\$ 128,981</b>	<b>\$ 204,813</b>	<b>\$ 81,462</b>
Percentage of originated mortgage loans sold	65.2%	80.7%	48.3%
Servicing retained %	99.2%	98.3%	92.4%
Servicing released %	0.8%	1.7%	7.6%
Loans serviced for others	\$ 628,879	\$ 595,317	\$ 572,422
Mortgage servicing rights	\$ 4,750	\$ 4,491	\$ 4,041
Gain on sale of loans	\$ 4,117	\$ 6,735	\$ 2,517
Loans servicing and other fees	\$ 1,845	\$ 1,776	\$ 1,824
Amortization of MSR's	\$ 740	\$ 966	\$ 749
Impairment of MSR's	\$ 3	\$ 163	\$ 786
Gain on sale of loans as % of principal	3.19%	3.29%	3.08%

**Liability Changes**

Total liabilities as of December 31, 2013 decreased \$554 thousand, to \$1.83 billion from December 31, 2012. The slight decrease was related to the \$70.3 million decrease in interest-bearing deposits, which were replaced by increases of \$27.0 million in non-interest-bearing deposits and \$44.3 million in FHLB advances and other borrowings.

**Deposits** Total deposits decreased \$43.3 million, or 2.7%, to \$1.59 billion as of December 31, 2013 from \$1.63 billion as of December 31, 2012. As mentioned above, interest-bearing deposits decreased primarily as a result of the Corporation's decision to allow its higher-rate time deposits to run off.

The following table details deposits as of the dates indicated:

<i>(dollars in thousands)</i>	<b>As of December 31,</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Interest-bearing checking	\$ 266,787	\$ 270,279	\$ 233,562	\$ 234,107	\$ 151,432
Money market	544,310	559,470	393,729	327,824	229,836
Savings	135,240	129,091	130,613	134,163	101,719
Wholesale non-maturity	42,936	45,162	65,173	80,112	52,174
Wholesale time deposits	34,640	12,421	23,550	37,201	36,118
Time deposits	140,794	218,586	209,333	245,669	153,705
<b>Interest-bearing deposits</b>	<b>\$ 1,164,707</b>	<b>\$ 1,235,009</b>	<b>\$ 1,055,960</b>	<b>\$ 1,059,076</b>	<b>\$ 724,984</b>

Non-interest-bearing deposits	426,640	399,673	326,409	282,356	212,903
Total deposits	\$ 1,591,347	\$ 1,634,682	\$ 1,382,369	\$ 1,341,432	\$ 937,887

**Table of Contents**

The following table summarizes the maturities of certificates of deposit of \$100,000 or greater at December 31, 2013:

<i>(dollars in thousands)</i>	<b>Retail</b>	<b>Wholesale</b>
Three months or less	\$ 19,710	\$ 8,065
Three to six months	7,781	
Six to twelve months	14,131	238
Greater than twelve months	11,116	26,145
<b>Total</b>	<b>\$ 52,738</b>	<b>\$ 34,448</b>

For more information regarding deposits, including average amount of deposits and average rate paid, refer to page 36 of this MD&A.

**Borrowings** Short-term borrowings as of December 31, 2013, which include only repurchase agreements, increased \$1.5 million, or 15.8%, from December 31, 2012. As of December 31, 2013, FHLB advances and other borrowings increased \$44.3 million, or 27.5%, from December 31, 2012. During 2013, as deposits declined, the strong loan demand utilized not only idle cash, but also required additional advances from the FHLB. See the Liquidity Section of this MD&A on page 57 for further details on the Corporation's FHLB available borrowing capacity.

**Discussion of Segments**

The Corporation has two operating segments: Wealth Management and Banking. These segments are discussed below. Detailed segment information appears in Note 27 in the Notes to Consolidated Financial Statements.

**Wealth Management Segment Activity**

The Wealth Management segment reported a pre-tax segment profit ( PTSP ) for the twelve months ended December 31, 2013 of \$13.1 million, a \$2.9 million, or 27.9%, increase from the same period in 2012. The increase in PTSP was primarily due to a \$5.4 million, or 18.1%, increase in fees for wealth management services. The increase was partially the result of a full year's impact of the \$1.0 billion of wealth assets acquired in the May 2012 acquisition of DTC, along with the success of the Wealth Management division's strategic initiatives and market appreciation, which increased wealth management assets under management, administration, supervision and brokerage by \$605 million to \$7.3 billion, as of December 31, 2013.

The Wealth Management segment reported a pre-tax segment profit ( PTSP ) for the twelve months ended December 31, 2012 of \$10.3 million, a \$2.7 million, or 35.8%, increase from the same period in 2011. The increase in PTSP was primarily due to a \$8.1 million, or 37.5%, increase in fees for wealth management services due, in large part, to the May 15, 2012 acquisition of DTC, which initially increased wealth management assets under management, administration, supervision and brokerage by \$1.0 billion. In addition, the Corporation experienced a full year's impact of the \$1.1 billion of wealth assets acquired in the May 2011 PWMG acquisition.

The following table shows the Corporation's wealth management assets under management, administration, supervision and brokerage as of the dates indicated:

<i>(dollars in millions)</i>	<b>As of December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Total wealth assets under management, administration, supervision and brokerage	\$7,268.3	\$6,663.2	\$4,831.6

---

**Table of Contents**

**Banking Segment Activity**

Banking segment data as presented in Note 27 in the accompanying Notes to Consolidated Financial Statements indicates a PTSP of \$23.9 million in 2013, \$21.9 million in 2012 and \$21.6 million in 2011. See Components of Net Income on page 34 of this document for a discussion of the Banking Segment.

**Capital and Regulatory Capital Ratios**

Consolidated shareholders' equity of the Corporation was \$229.9 million, or 11.2% of total assets, as of December 31, 2013, as compared to \$203.6 million, or 10.0% of total assets, as of December 31, 2012.

In April 2012, the Corporation filed a shelf registration statement (the Shelf Registration Statement) to replace its 2009 Shelf Registration Statement, which was set to expire in June 2012. This new Shelf Registration Statement allows the Corporation to raise additional capital through offers and sales of registered securities consisting of common stock, debt securities, warrants to purchase common stock, stock purchase contracts and units or units consisting of any combination of the foregoing securities. Using the prospectus in the Shelf Registration Statement, together with applicable prospectus supplements, the Corporation may sell, from time to time, in one or more offerings, such securities in a dollar amount up to \$150,000,000, in the aggregate.

The Corporation has in place under its Shelf Registration Statement a Dividend Reinvestment and Stock Purchase Plan (the Plan), which was amended and restated on April 27, 2012 primarily to increase the number of shares which can be issued by the Corporation from 850,000 to 1,500,000 shares of registered common stock. The Plan allows for the grant of a request for waiver ( RFW ) above the Plan's maximum investment of \$120 thousand per account per year. A RFW is granted based on a variety of factors, including the Corporation's current and projected capital needs, prevailing market prices of the Corporation's common stock and general economic and market conditions.

The Plan is intended to allow both existing shareholders and new investors to easily and conveniently increase their investment in the Corporation without incurring many of the fees and commissions normally associated with brokerage transactions. For the twelve months ended December 31, 2013 and 2012, the Corporation issued 7,455 and 108,918 shares, respectively, and raised \$176 thousand and \$2.1 million, respectively, through the Plan.

On May 27, 2011, in connection with the acquisition of PWMG, which is discussed in Note 2 in the Notes to Consolidated Financial Statements, the Corporation issued 322,101 unregistered shares of common stock, valued at \$6.7 million. On September 30, 2011, the Corporation filed with the SEC a registration statement on Form S-3 (File No. 333-177109) to register for resale the 322,101 shares issued as part of the purchase price. The registration became effective November 18, 2011.

Accumulated other comprehensive loss, as of December 31, 2013 was \$5.6 million, a decrease of \$4.5 million from December 31, 2012. The primary cause of this decrease was related to a \$12.0 million decrease in the unfunded pension liability which was due to better-than-expected returns on plan assets, an increase in the discount rate used to project the future benefit obligations, which increased from 3.70% to 4.60%, along with the curtailment of a nonqualified defined benefit plan during the first quarter of 2013. Partially offsetting this improvement was the \$6.2 million market value decline on the Corporation's available for sale investment portfolio between the dates. Rising interest rates during 2013 essentially nullified the unrealized gains that were present as of December 31, 2012.

As detailed in Note 24-D in the Notes to Consolidated Financial Statements, the Corporation's ratio of total capital to risk-weighted assets increased from 12.02% as of December 31, 2012 to 12.55% as of December 31, 2013. This increase was primarily related to the \$15.1 million increase in retained earnings, along with a \$6.7 million increase in

common stock issuances between the dates.

---

## **Table of Contents**

The Corporation's and Bank's regulatory capital ratios and the minimum capital requirements to be considered "Well Capitalized" by banking regulators are displayed in Note 24 in the Notes to Consolidated Financial Statements. Both the Corporation and the Bank exceeded the required capital levels to be considered "Well Capitalized" by their respective regulators at the end of each period presented.

## **Liquidity**

The Corporation has significant sources and availability of liquidity at December 31, 2013 as discussed in this section. The liquidity position is managed on a daily basis as part of the daily settlement function and on a monthly basis as part of the asset liability management process. The Corporation's primary liquidity is maintained by managing its deposits along with the utilization of purchased federal funds, borrowings from the FHLB and utilization of other wholesale funding sources. Secondary sources of liquidity include the sale of investment securities and certain loans in the secondary market.

Other wholesale funding sources include certificates of deposit from brokers, generally available in blocks of \$1.0 million or more. Funds obtained through these programs totaled \$34.6 million as of December 31, 2013.

As of December 31, 2013, the maximum borrowing capacity with the FHLB was \$841.5 million, with an unused borrowing availability of \$628.4 million. Borrowing availability at the Federal Reserve was \$73.3 million, and overnight Fed Funds lines, consisting of lines from six banks, totaled \$64.0 million. On a monthly basis, the Corporation's Asset Liability Committee reviews the Corporation's liquidity needs. This information is reported to the Risk Management Committee of the Board of Directors on a quarterly basis.

As of December 31, 2013, the Corporation held \$11.7 million of FHLB stock as required by the borrowing agreement between the FHLB and the Corporation.

The Corporation has an agreement with CDC to provide up to \$5 million, plus interest, of money market deposits at an agreed upon rate currently at 0.45%. The Corporation had \$5.2 million in balances as of December 31, 2013 under this program. The Corporation can request an increase in the agreement amount as it deems necessary. In addition, the Corporation has an agreement with IND to provide up to \$40 million, plus interest, of money market and NOW funds at an agreed upon interest rate equal to the current Fed Funds rate plus 20 basis points. The Corporation had \$36.5 million in balances as of December 31, 2013 under this program.

The Corporation's investment portfolio of \$285.8 million as of December 31, 2013 was approximately 13.9% of total assets. Some of these investments were in short-term, high-quality, liquid investments to earn more than the 25 basis points currently earned on Fed Funds. The Corporation's policy is to maintain its investment portfolio at a minimum level of 10% of total assets. The portion of the investment portfolio that is not already pledged against borrowings from the FHLB or other funding sources, provides the Corporation with the ability to utilize the securities to borrow additional funds through the FHLB, Federal Reserve or through other repurchase agreements.

The Corporation continually evaluates its borrowing capacity and sources of liquidity. The Corporation believes that it has sufficient capacity to fund expected 2014 earning asset growth with wholesale sources, along with deposit growth from its expanded branch system.

## **Off Balance Sheet Risk**

The Corporation becomes party to financial instruments in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit and



create off-balance sheet risk.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement.

**Table of Contents**

Standby letters of credit are conditional commitments issued by the Bank to a customer for a third party. Such standby letters of credit are issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is similar to that involved in granting loan facilities to customers.

The following chart presents the off-balance sheet commitments of the Corporation as of December 31, 2013, listed by dates of funding or payment:

<i>(dollars in millions)</i>	<b>Total</b>	<b>Within 1 Year</b>	<b>2 - 3 Years</b>	<b>4 - 5 Years</b>	<b>After 5 Years</b>
Unfunded loan commitments	\$ 405.3	\$ 229.2	\$ 63.6	\$ 17.2	\$ 95.3
Standby letters of credit	21.2	9.9	11.2	0.1	
<b>Total</b>	<b>\$ 426.5</b>	<b>\$ 239.1</b>	<b>\$ 74.8</b>	<b>\$ 17.3</b>	<b>\$ 95.3</b>

Estimated fair values of the Corporation's off-balance sheet instruments are based on fees and rates currently charged to enter into similar loan agreements, taking into account the remaining terms of the agreements and the counterparties credit standing. Collateral requirements for off-balance sheet items are generally based upon the same standards and policies as booked loans. Since fees and rates charged for off-balance sheet items are at market levels when set, there is no material difference between the stated amount and the estimated fair value of off-balance sheet instruments.

**Contractual Cash Obligations of the Corporation as of December 31, 2013**

<i>(dollars in millions)</i>	<b>Total</b>	<b>Within 1 Year</b>	<b>2 - 3 Years</b>	<b>4 - 5 Years</b>	<b>After 5 Years</b>
Deposits without a stated maturity	\$ 1,415.8	\$ 1,415.8	\$	\$	\$
Wholesale and retail certificates of deposit	175.4	112.1	40.8	22.5	
Short-term borrowings	10.9	10.9			
FHLB advances and other borrowings	205.6	3.9	95.2	101.5	5.0
Operating leases	52.8	3.1	6.1	6.0	37.6
Purchase obligations	16.9	4.0	7.7	4.3	0.9
<b>Total</b>	<b>\$ 1,877.4</b>	<b>\$ 1,549.8</b>	<b>\$ 149.8</b>	<b>\$ 134.3</b>	<b>\$ 43.5</b>

**Other Information****Regulatory Matters and Pending Legislation**

On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Corporation and the Bank. The FDIC and the OCC have subsequently approved these rules. The final rules were adopted following the issuance of proposed rules by the Federal Reserve in June 2012 and implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. Basel III refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include new risk-based capital and leverage ratios, which would be phased in from 2015 to 2019, and would refine the definition of what constitutes capital for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Corporation and the Bank under the final rules would be:

- (i) a new common equity Tier 1 capital ratio of 4.5%;
- (ii) a Tier 1 capital ratio of 6% (increased from 4%);
- (iii) a total capital ratio of 8% (unchanged from current rules); and

**Table of Contents**

(iv) a Tier 1 leverage ratio of 4% for all institutions.

The final rules also establish a capital conservation buffer above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital.

The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019:

(i) a common equity Tier 1 capital ratio of 7.0%;

(ii) a Tier 1 capital ratio of 8.5%; and

(iii) a total capital ratio of 10.5%.

Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

Basel III provided discretion for regulators to impose an additional buffer, the countercyclical buffer, of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the final rules permit the countercyclical buffer to be applied only to advanced approach banks (i.e., banks with \$250 billion or more in total assets or \$10 billion or more in total foreign exposures), which currently excludes the Corporation and the Bank. The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than \$15 billion in total assets as of December 31, 2009 (which includes the Corporation) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

In addition, the final rules provide for smaller banking institutions (less than \$250 billion in consolidated assets) an opportunity to make a one-time election to opt out of including most elements of accumulated other comprehensive income in regulatory capital. Importantly, the opt-out excludes from regulatory capital not only unrealized gains and losses on available-for-sale debt securities, but also accumulated net gains and losses on cash-flow hedges and amounts attributable to defined benefit postretirement plans. The opt-out election must be elected on the first Call Report filed after January 1, 2015.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions take effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as well capitalized:

- (i) a new common equity Tier 1 capital ratio of 6.5%;
- (ii) a Tier 1 capital ratio of 8% (increased from 6%);
- (iii) a total capital ratio of 10% (unchanged from current rules); and
- (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

---

## **Table of Contents**

The final rules set forth certain changes for the calculation of risk-weighted assets, which we will be required to utilize beginning January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses:

- (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act;
- (ii) revisions to recognition of credit risk mitigation;
- (iii) rules for risk weighting of equity exposures and past due loans;
- (iv) revised capital treatment for derivatives and repo-style transactions; and
- (v) disclosure requirements for top-tier banking organizations with \$50 billion or more in total assets that are not subject to the advance approach rules that apply to banks with greater than \$250 billion in consolidated assets.

The Dodd-Frank Act expanded the base for FDIC insurance assessments, requiring that assessments be based on the average consolidated total assets less tangible equity capital of a financial institution. On February 7, 2011, the FDIC approved a final rule to implement the foregoing provision of the Dodd-Frank Act and to make other changes to the deposit insurance assessment system applicable to insured depository institutions with over \$10 billion in assets. Among other things, the final rule eliminated risk categories and the use of long-term debt issuer ratings in calculating risk-based assessments, and instead implemented a scorecard method, combining CAMELS ratings and certain forward-looking financial measures to assess the risk an institution poses to the Deposit Insurance Fund. The final rule also revised the assessment rate schedule for large institutions and highly complex institutions to provide assessments ranging from 2.5 to 45 basis points. Except as specifically provided, the final rule took effect for the quarter beginning April 1, 2011.

## **Effects of Inflation**

Inflation has some impact on the Corporation's operating costs. Unlike many industrial companies, however, substantially all of the Corporation's assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on the Corporation's performance than the general level of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as prices of goods and services.

## **Effect of Government Monetary Policies**

The earnings of the Corporation are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. An important function of the Federal Reserve Board is to regulate the money supply and interest rates. Among the instruments used to implement those objectives are open market operations in United States government securities and changes in reserve requirements against member bank deposits. These instruments are used in varying combinations to influence overall growth and distribution of bank loans, investments, and deposits, and their use may also affect rates charged on loans or paid for deposits.

The Corporation is a member of the Federal Reserve System and, therefore, the policies and regulations of the Federal Reserve Board have a significant effect on its deposits, loans and investment growth, as well as the rate of interest earned and paid, and are expected to affect the Corporation's operations in the future. The effect of such policies and regulations upon the future business and earnings of the Corporation cannot be predicted.

**Special Cautionary Notice Regarding Forward Looking Statements**

Certain of the statements contained in this Item may constitute forward-looking statements for the purposes of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended, and may involve

**Table of Contents**

known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Bryn Mawr Bank Corporation (the Corporation) to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements include statements with respect to the Corporation's financial goals, business plans, business prospects, credit quality, credit risk, reserve adequacy, liquidity, origination and sale of residential mortgage loans, mortgage servicing rights, the effect of changes in accounting standards, and market and pricing trends loss. The words may, would, could, will, likely, expect, anticipate, intend, estimate, plan, forecast, project and believe expressions are intended to identify such forward-looking statements. The Corporation's actual results may differ materially from the results anticipated by the forward-looking statements due to a variety of factors, including without limitation:

the effect of future economic conditions on the Corporation and its customers, including economic factors which affect consumer confidence in the securities markets, wealth creation, investment and savings patterns, the real estate market, and the Corporation's interest rate risk exposure and credit risk;

changes in the securities markets with respect to the market values of financial assets and the stability of particular securities markets;

governmental monetary and fiscal policies, as well as legislation and regulatory changes;

results of examinations by the Federal Reserve Board, including the possibility that the Federal Reserve Board may, among other things, require us to increase our allowance for loan losses or to write down assets;

changes in accounting requirements or interpretations;

changes in existing statutes, regulatory guidance, legislation or judicial decisions that adversely affect our business, including changes in federal income tax or other tax regulations;

the risks of changes in interest rates on the level and composition of deposits, loan demand, and the value of loan collateral and securities, as well as interest rate risk;

the effects of competition from other commercial banks, thrifts, mortgage companies, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money-market and mutual funds and other institutions operating in the Corporation's trade market area and elsewhere including institutions operating locally, regionally, nationally and internationally and such competitors offering banking products and services by mail, telephone, computer and the Internet;



any extraordinary events (such as the September 11, 2001 events, the war on terrorism and the U.S. Government's response to those events, including the war in Iraq);

the Corporation's need for capital;

the Corporation's success in continuing to generate new business in its existing markets, as well as its success in identifying and penetrating targeted markets and generating a profit in those markets in a reasonable time;

the Corporation's ability to continue to generate investment results for customers and the ability to continue to develop investment products in a manner that meets customers needs;

changes in consumer and business spending, borrowing and savings habits and demand for financial services in our investment products in a manner that meets customers' needs;

the Corporation's timely development of competitive new products and services in a changing environment and the acceptance of such products and services by customers;

the Corporation's ability to originate, sell and service residential mortgage loans;

the accuracy of assumptions underlying the establishment of reserves for loan losses and estimates in the value of collateral, the market value of mortgage servicing rights and various financial assets and liabilities;

**Table of Contents**

the Corporation's ability to retain key members of the senior management team;

the ability of key third-party providers to perform their obligations to the Corporation and the Bank;

technological changes being more difficult or expensive than anticipated;

the Corporation's success in managing the risks involved in the foregoing.

All written or oral forward-looking statements attributed to the Corporation are expressly qualified in their entirety by use of the foregoing cautionary statements. All forward-looking statements included in this Annual Report and incorporated documents are based upon the Corporation's beliefs and assumptions as of the date of this Annual Report. The Corporation assumes no obligation to update any forward-looking statement. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this Annual Report or incorporated documents might not occur and you should not put undue reliance on any forward-looking statements. Some of these and other factors are discussed in the section entitled "Risk Factors" elsewhere in this Form 10-K.

**ITEM 7A. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information required by this Item 7A is incorporated by reference to information appearing in the MD&A Section of this Annual Report on Form 10-K, more specifically in the sections entitled "Interest Rate Sensitivity," "Summary of Interest Rate Simulation," and "Gap Analysis."

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following audited consolidated financial statements and related documents are set forth in this Annual Report on Form 10-K on the following pages:

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	64
<u>Consolidated Balance Sheets</u>	65
<u>Consolidated Statements of Income</u>	66
<u>Consolidated Statements of Comprehensive Income</u>	67
<u>Consolidated Statements of Cash Flows</u>	68
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	69
<u>Notes to Consolidated Financial Statements</u>	70

**Table of Contents**

Report of Independent Registered Public Accounting Firm

**The Board of Directors and Shareholders**

**Bryn Mawr Bank Corporation:**

We have audited the accompanying consolidated balance sheets of Bryn Mawr Bank Corporation and subsidiaries (the Corporation ) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2014 expressed an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

Philadelphia, Pennsylvania

March 14, 2014

**Table of Contents**

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>December 31, 2013</b>	<b>December 31, 2012</b>
<b>Assets</b>		
Cash and due from banks	\$ 13,453	\$ 16,203
Interest bearing deposits with banks	67,618	159,483
Cash and cash equivalents	81,071	175,686
Investment securities available for sale, at fair value (amortized cost of \$287,127 and \$311,747 as of December 31, 2013 and December 31, 2012 respectively)	285,808	316,614
Investment securities, trading	3,437	1,447
Loans held for sale	1,350	3,412
Portfolio loans and leases	1,547,185	1,398,456
Less: Allowance for loan and lease losses	(15,515)	(14,425)
Net portfolio loans and leases	1,531,670	1,384,031
Premises and equipment, net	31,796	31,170
Accrued interest receivable	5,728	5,955
Deferred income taxes	8,690	12,303
Mortgage servicing rights	4,750	4,491
Bank owned life insurance	20,220	19,862
Federal Home Loan Bank stock	11,654	10,761
Goodwill	32,843	32,897
Intangible assets	19,365	21,998
Other investments	4,437	4,346
Other assets	18,846	10,912
<b>Total assets</b>	<b>\$ 2,061,665</b>	<b>\$ 2,035,885</b>
<b>Liabilities</b>		
Deposits:		
Non-interest-bearing	\$ 426,640	\$ 399,673
Interest-bearing	1,164,707	1,235,009
<b>Total deposits</b>	<b>1,591,347</b>	<b>1,634,682</b>
Short-term borrowings	10,891	9,403
FHLB advances and other borrowings	205,644	161,315
Accrued interest payable	841	1,233
Other liabilities	23,044	25,688
<b>Total liabilities</b>	<b>1,831,767</b>	<b>1,832,321</b>

**Shareholders equity**

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Common stock, par value \$1; authorized 100,000,000 shares; issued 16,596,869 and 16,390,608 shares as of December 31, 2013 and December 31, 2012, respectively, and outstanding of 13,650,354 and 13,412,690 as of December 31, 2013 and December 31, 2012, respectively	16,597	16,390
Paid-in capital in excess of par value	95,673	89,137
Less: Common stock in treasury at cost - 2,946,515 and 2,977,918 shares as of December 31, 2013 and December 31, 2012, respectively	(30,764)	(30,745)
Accumulated other comprehensive loss, net of tax benefit	(5,565)	(10,078)
Retained earnings	153,957	138,860
Total shareholders' equity	229,898	203,564
Total liabilities and shareholders' equity	\$ 2,061,665	\$ 2,035,885

*The accompanying notes are an integral part of the consolidated financial statements.*

**Table of Contents**

## Consolidated Statements of Income

<i>(dollars in thousands, except per share data)</i>	<b>Twelve Months Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Interest income:</b>			
Interest and fees on loans and leases	\$ 73,941	\$ 68,891	\$ 69,321
Interest on cash and cash equivalents	158	127	115
Interest on investment securities:			
Taxable	3,799	3,970	4,488
Non-taxable	396	208	226
Dividends	123	127	412
<b>Total interest income</b>	<b>78,417</b>	<b>73,323</b>	<b>74,562</b>
<b>Interest expense on:</b>			
Deposits	2,758	4,032	5,787
Short-term borrowings	25	21	25
FHLB advances and other borrowings	2,644	3,604	3,676
Subordinated debentures		931	1,123
Junior subordinated debentures			1,050
<b>Total interest expense</b>	<b>5,427</b>	<b>8,588</b>	<b>11,661</b>
Net interest income	72,990	64,735	62,901
<b>Provision for loan and lease losses</b>	<b>3,575</b>	<b>4,003</b>	<b>6,088</b>
Net interest income after provision for loan and lease losses	69,415	60,732	56,813
<b>Non-interest income:</b>			
Fees for wealth management services	35,184	29,798	21,669
Service charges on deposits	2,445	2,477	2,495
Loan servicing and other fees	1,845	1,776	1,824
Net gain on sale of residential mortgage loans	4,117	6,735	2,517
Net (loss) gain on sale of investment securities available for sale	(8)	1,415	1,783
Net loss on sale of other real estate owned ( OREO )	(300)	(86)	(97)
Bank owned life insurance ( BOLI ) income	358	428	462
Other operating income	4,714	3,843	3,406
<b>Total non-interest income</b>	<b>48,355</b>	<b>46,386</b>	<b>34,059</b>
<b>Non-interest expenses:</b>			
Salaries and wages	36,346	33,131	28,084
Employee benefits	8,832	8,127	6,889
Net gain on curtailment of nonqualified pension plan	(690)		
Occupancy and bank premises	6,862	5,874	5,176
Furniture, fixtures, and equipment	3,977	3,727	3,509
Advertising	1,526	1,309	1,166
Amortization of mortgage servicing rights	740	966	749

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Net impairment of mortgage servicing rights	3	163	786
Amortization of intangible assets	2,633	2,411	1,490
FDIC insurance	1,063	970	1,186
Due diligence and merger-related expenses	1,885	2,629	537
Early extinguishment of debt costs and premiums	347	526	
Professional fees	2,456	2,868	2,311
Other operating expenses	14,760	12,200	9,846
<b>Total non-interest expenses</b>	<b>80,740</b>	<b>74,901</b>	<b>61,729</b>
Income before income taxes	37,030	32,217	29,143
Income tax expense	12,586	11,070	9,541
<b>Net income</b>	<b>\$ 24,444</b>	<b>\$ 21,147</b>	<b>\$ 19,602</b>
Basic earnings per common share	\$ 1.84	\$ 1.62	\$ 1.55
Diluted earnings per common share	\$ 1.80	\$ 1.60	\$ 1.54
Dividends declared per share	\$ 0.69	\$ 0.64	\$ 0.60
Weighted-average basic shares outstanding	13,311,215	13,090,110	12,659,824
Dilutive shares	260,395	151,736	82,313
Adjusted weighted-average diluted shares	13,571,610	13,241,846	12,742,137

*The accompanying notes are an integral part of the consolidated financial statements.*



**Table of Contents**

## Consolidated Statements of Comprehensive Income

<i>(dollars in thousands)</i>	<b>Twelve Month Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net income	\$ 24,444	\$ 21,147	\$ 19,602
Other comprehensive income (loss):			
<b>Net change in unrealized (losses) gains on investment securities available for sale:</b>			
Net unrealized (losses) gains arising during the period, net of tax (benefit) expense of \$(2,168), \$1,233 and \$1,021, respectively	(4,026)	2,292	1,897
Less: reclassification adjustment for net losses (gains) on sales realized in net income, net of tax (benefit) expense of \$(3), \$495, and \$624, respectively	5	(920)	(1,159)
Unrealized investment (losses) gains, net of tax (benefit) expense of \$(2,165), \$739 and \$397, respectively	(4,021)	1,372	738
<b>Net change in fair value of derivative used for cash flow hedge:</b>			
Change in fair value of hedging instruments, net of tax (expense) benefit of \$(412), \$13 and \$0, respectively	766	(23)	
<b>Net change in unfunded pension liability:</b>			
Change in unfunded pension liability related to unrealized loss, prior service cost and transition obligation, net of tax expense (benefit) of \$3,442, \$(33) and \$(2,879), respectively	6,391	(62)	(5,346)
Change in unfunded pension liability related to curtailment, net of tax expense of \$741, \$0, and \$0, respectively	1,377		
Total change in unfunded pension liability, net of tax expense (benefit) of \$4,183, \$(33) and \$(2,879), respectively	7,768	(62)	(5,346)
Total other comprehensive income (loss)	4,513	1,287	(4,608)
Total comprehensive income	\$ 28,957	\$ 22,434	\$ 14,994

*The accompanying notes are an integral part of the consolidated financial statements.*

**Table of Contents**

## Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	<b>Twelve Months Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Operating activities:</b>			
Net Income	\$ 24,444	\$ 21,147	\$ 19,602
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	3,575	4,003	6,088
Depreciation of fixed assets and net amortization of investment premiums and discounts	6,836	6,713	5,688
Net loss (gain) on sale of investment securities available for sale	8	(1,415)	(1,783)
Net gain on sale of residential mortgages	(4,117)	(6,735)	(2,517)
Stock based compensation cost	1,004	1,283	876
Amortization and net impairment of mortgage servicing rights	743	1,129	1,535
Net accretion of fair value adjustments	(3,490)	(1,892)	(2,037)
Amortization of intangible assets	2,633	2,411	1,490
Impairment of other real estate owned ( OREO )			251
Net loss on sale of OREO	300	86	97
Net increase in cash surrender value of bank owned life insurance ( BOLI )	(358)	(428)	(462)
Other, net	1,253	297	3,834
Loans originated for resale	(126,920)	(206,637)	(78,212)
Proceeds from loans sold	132,097	209,969	83,328
Contributions to pension plans			(10,000)
Provision (benefit) for deferred income taxes	1,195	(505)	3,310
Change in income taxes payable/receivable	843	3,437	(3,270)
Change in accrued interest receivable	227	355	409
Change in accrued interest payable	(392)	(575)	(1,701)
<b>Net cash provided by operating activities</b>	<b>39,881</b>	<b>32,643</b>	<b>26,526</b>
<b>Investing activities:</b>			
Purchases of investment securities	(97,517)	(223,019)	(216,948)
Proceeds from maturity of investment securities and paydowns of mortgage-related securities	62,643	48,576	36,532
Proceeds from sale of investment securities available for sale	14,942	40,640	89,661
Net change in FHLB stock	(893)	827	
Proceeds from calls of investment securities	40,287	89,992	137,410
Net change in other investments	(91)	(239)	(619)
Net portfolio loan and lease originations	(148,102)	(28,082)	(101,900)
Purchases of premises and equipment	(3,571)	(4,048)	(2,612)
Acquisitions, net of cash acquired		(15,951)	(13,367)
Capitalize costs to OREO	(485)	(61)	
Proceeds from sale of OREO	1,089	567	2,793

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Net cash used in investing activities	(131,698)	(90,798)	(69,050)
<b>Financing activities:</b>			
Change in deposits	(42,986)	182,368	41,482
Change in short-term borrowings	1,488	(3,460)	2,812
Dividends paid	(9,297)	(8,529)	(7,679)
Change in FHLB advances and other borrowings	44,479	13,962	(11,797)
Repayment of subordinated debentures		(22,500)	
Repayment of junior subordinated debentures			(12,028)
Payment of contingent consideration for business combinations	(2,100)	(1,050)	
Excess tax benefit from stock-based compensation	708	112	141
Proceeds from sale of treasury stock from deferred compensation plans	764	317	
Net purchase of treasury stock for deferred compensation plans			(42)
Proceeds from issuance of common stock	176	2,118	8,325
Proceeds from exercise of stock options	3,970	1,363	966
Net cash (used in) provided by financing activities	(2,798)	164,701	22,180
Change in cash and cash equivalents	(94,615)	106,546	(20,344)
Cash and cash equivalents at beginning of period	175,686	69,140	89,484
Cash and cash equivalents at end of period	\$ 81,071	\$ 175,686	\$ 69,140

**Supplemental cash flow information:**

Cash paid during the year for:

Income taxes	\$ 9,775	\$ 8,092	\$ 9,213
Interest	\$ 5,819	\$ 8,947	\$ 13,362

**Supplemental cash flow information:**

Available for sale securities purchased, not settled	\$	\$ 255	\$
Change in other comprehensive loss	\$ 6,943	\$ 1,980	\$ (7,090)
Change in deferred tax due to change in comprehensive income	\$ 2,430	\$ 693	\$ 2,482
Transfer of loans to other real estate owned	\$ 853	\$ 949	\$ 1,163
Issuance of shares and options for acquisitions	\$	\$	\$ 6,661
Acquisition of noncash assets and liabilities:			
Assets acquired	\$	\$ 90,853	\$ 20,339
Liabilities assumed	\$	\$ 74,902	\$

*The accompanying notes are an integral part of the consolidated financial statements.*

**Table of Contents**

## Consolidated Statement of Changes in Shareholders' Equity

<i>(dollars in thousands, except per share information)</i>	For the Years Ended December 31, 2011, 2012 and 2013						
	Shares of Common Stock Issued	Common Stock	Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
Balance December 31, 2010	15,109,718	\$ 15,110	\$ 68,398	\$ (31,033)	\$ (6,757)	\$ 114,319	\$ 160,037
Net income						19,602	19,602
Dividends declared, \$0.60 per share						(7,679)	(7,679)
Other comprehensive loss, net of tax benefit of \$2,482					(4,608)		(4,608)
Stock based compensation			876				876
Tax benefit from stock-based compensation			141				141
Retirement of treasury stock	(4,936)	(5)	(43)	48			
Net purchase of treasury stock for deferred compensation plans				(42)			(42)
Common stock issued:							
Dividend Reinvestment and Stock Purchase Plan	448,377	448	7,877				8,325
Share-based awards and options exercises	228,893	229	837				1,066
Acquisitions	321,929	322	6,339				6,661
Balance December 31, 2011	16,103,981	16,104	84,425	(31,027)	(11,365)	126,242	184,379
Net income						21,147	21,147
Dividends declared, \$0.64 per share						(8,529)	(8,529)
Other comprehensive income, net of tax expense of \$693					1,287		1,287
Stock based compensation			1,283				1,283
Tax benefit from stock-based compensation			112				112
	(4,249)	(4)	(40)	44			

Retirement of treasury stock								
Net sale of treasury stock from deferred compensation plans			79	238				317
Common stock issued:								
Dividend Reinvestment and Stock Purchase Plan	108,918	109	2,009					2,118
Share-based awards and options exercises	181,958	181	1,269					1,450
Balance December 31, 2012	16,390,608	16,390	89,137	(30,745)	(10,078)	138,860		203,564
Net income						24,444		24,444
Dividends declared, \$0.69 per share						(9,347)		(9,347)
Other comprehensive income, net of tax expense of \$2,430						4,513		4,513
Stock based compensation			1,004					1,004
Tax benefit from stock-based compensation			708					708
Retirement of treasury stock	(4,517)	(4)	(41)	45				
Net sale of treasury stock from stock award and deferred compensation plans			828	(64)				764
Common stock issued:								
Dividend Reinvestment and Stock Purchase Plan	7,455	7	169					176
Share-based awards and options exercises	203,323	204	3,868					4,072
Balance December 31, 2013	16,596,869	\$ 16,597	\$ 95,673	\$ (30,764)	\$ (5,565)	\$ 153,957		\$ 229,898

*The accompanying notes are an integral part of the consolidated financial statements.*

---

**Table of Contents**

**Notes to Consolidated Financial Statements**

**Note 1 Summary of Significant Accounting Policies**

**A. Nature of Business**

The Bryn Mawr Trust Company (the **Bank**) received its Pennsylvania banking charter in 1889 and is a member of the Federal Reserve System. In 1986, Bryn Mawr Bank Corporation (the **Corporation**) was formed and on January 2, 1987, the Bank became a wholly-owned subsidiary of the Corporation. The Bank and Corporation are headquartered in Bryn Mawr, Pennsylvania, a western suburb of Philadelphia. The Corporation and its subsidiaries provide wealth management, community banking, residential mortgage lending, insurance and business banking services to its customers through 19 full service branches, seven retirement community offices, and five wealth offices located throughout Montgomery, Delaware, Chester and Dauphin counties in Pennsylvania and New Castle county in Delaware. In 2008, the Corporation opened the Bryn Mawr Trust Company of Delaware, a limited-purpose trust company in Greenville, Delaware, to further its long-term growth strategy, and diversify its asset base and client accounts. The common stock of the Corporation trades on the NASDAQ Stock Market ( **NASDAQ** ) under the symbol **BMTC**.

On November 17, 2012, the acquisition of \$70.3 million of deposits, \$76.6 million of loans and a branch location from the First Bank of Delaware ( **FBD** ), by the Corporation was completed. The transaction, which was accounted for as a business combination, enabled the Corporation to expand its banking arm into the Delaware market by opening its first full-service branch there, complementing its existing Wealth Management operations in the state.

On May 15, 2012, the acquisition of Davidson Trust Company ( **DTC** ) by the Corporation was completed. The acquisition of DTC initially increased the Corporation's Wealth Management Division assets under management by \$1.0 billion. The structure of the Corporation's existing Wealth Management segment allowed the Corporation to integrate the operations of DTC into its existing wealth operations and enabled it to take advantage of the various synergies that existed between the two companies.

On May 27, 2011, the acquisition of the Private Wealth Management Group of the Hershey Trust Company ( **PWMG** ) by the Corporation was completed. The acquisition of PWMG initially increased the Corporation's Wealth Management Division assets under management by \$1.1 billion. In addition, the acquisition enabled the Wealth Management Division to extend into central Pennsylvania by continuing to operate the former PWMG offices located in Hershey, Pennsylvania.

The Corporation operates in a highly competitive market area that includes local, national and regional banks as competitors along with savings banks, credit unions, insurance companies, trust companies, registered investment advisors and mutual fund families. The Corporation and its subsidiaries are regulated by many regulatory agencies including the Securities and Exchange Commission ( **SEC** ), Federal Deposit Insurance Corporation ( **FDIC** ), the Federal Reserve and the Pennsylvania Department of Banking.

**B. Basis of Presentation**

The accounting policies of the Corporation conform to U.S. generally accepted accounting principles ( **GAAP** ) and predominant practices within the banking industry.

The Consolidated Financial Statements include the accounts of the Corporation and its wholly owned subsidiaries. The Corporation's consolidated financial condition and results of operations consist almost entirely of the Bank's

financial condition and results of operations. All material, inter-company transactions and balances have been eliminated.

---

**Table of Contents**

In preparing the Consolidated Financial Statements, the Corporation is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the balance sheets, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that in 2014, actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Amounts subject to significant estimates are items such as the allowance for loan and lease losses and lending related commitments, goodwill and intangible assets, pension and post-retirement obligations, the fair value of financial instruments and other-than-temporary impairments. Among other effects, such changes could result in future impairments of investment securities, goodwill and intangible assets and establishment of allowances for loan losses and lending-related commitments as well as increased pension and post-retirement expense.

**Correction of an Immaterial Accounting Error**

In September 2012, the Corporation identified an immaterial accounting error related to two of its deferred compensation plans. The provisions of the deferred compensation plans enabled certain executives and directors to have bonus payments and director's fees deferred, and allowed the participants to direct the investment of the deferred amounts. One of the investment choices offered to the participants was the Corporation's common stock. This stock, along with the participants' other investment choices, were placed in a trust which is owned by the Corporation. The carrying value of this trust is periodically adjusted to reflect changes in its fair market value. The portion of this trust comprised of the Corporation's common stock was incorrectly reported as an asset on the Corporation's balance sheet. The stock held in the trust should have been classified as treasury stock and reported in the shareholders' equity section of the Corporation's balance sheet, at cost.

**C. Cash and Cash Equivalents**

Cash and cash equivalents include cash and due from banks, interest-bearing deposits, federal funds sold and money market funds with other banks with original maturities of three months or less. Cash balances required to meet regulatory reserve requirements of the Federal Reserve Board amounted to \$367 thousand and \$3.8 million at December 31, 2013 and December 31, 2012, respectively.

**D. Investment Securities**

Investment securities which are held for indefinite periods of time, which the Corporation intends to use as part of its asset/liability strategy, or which may be sold in response to changes in interest rates, changes in prepayment risk, increases in capital requirements, or other similar factors, are classified as available for sale and are carried at fair value. Net unrealized gains and losses for such securities, net of tax, are required to be recognized as a separate component of shareholders' equity and excluded from determination of net income. Gains or losses on disposition are based on the net proceeds and cost of the securities sold, adjusted for amortization of premiums and accretion of discounts, using the specific identification method.

The Corporation follows ASC 370-10-65-1 Recognition and Presentation of Other-Than-Temporary Impairments that provides guidance related to accounting for recognition of other-than-temporary impairment for debt securities and expands disclosure requirements for other-than-temporarily impaired debt and equity securities. Companies are required to record other-than-temporary impairment charges through earnings if they have the intent to sell, or will more likely than not be required to sell, an impaired debt security before a recovery of its amortized cost basis. In



addition, companies are required to record other-than-temporary impairment charges through earnings for the amount of credit losses, regardless of the intent or requirement to sell. Credit loss is measured as the difference between the present value of an impaired debt security's cash flows and its amortized cost basis. Non-credit-related write-downs to fair value must be recorded as decreases to accumulated

## **Table of Contents**

other comprehensive income as long as the Corporation has no intent or it is more likely than not that the Corporation would not be required to sell an impaired security before a recovery of its amortized cost basis. The Corporation did not have any other-than-temporary impairment for 2013, 2012 or 2011.

Investment securities held in trading accounts consist solely of a deferred compensation trust account which is invested in marketable securities whose diversification is at the discretion of the deferred compensation plan participants. Investment securities held in trading accounts are reported at their fair value, with adjustments in fair value reported through income.

### **E. Loans Held for Sale**

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized temporary losses, if any, are recognized through a valuation allowance by charges to income.

### **F. Portfolio Loans and Leases**

The Corporation originates construction, commercial and industrial, commercial mortgage, residential mortgage, home equity and consumer loans to customers primarily in southeastern Pennsylvania as well as small-ticket equipment leasing to customers nationwide. Although the Corporation has a diversified loan and lease portfolio, its debtors' ability to honor their contracts is substantially dependent upon the real estate and general economic conditions of the region.

Loans and leases that the Corporation has the intention and ability to hold for the foreseeable future or until maturity or pay-off, generally are reported at their outstanding principal balance adjusted for charge-offs, the allowance for loan and lease losses and any deferred fees or costs on originated loans and leases. Interest income is accrued on the unpaid principal balance.

Loan and lease origination fees and loan and lease origination costs are deferred and recognized as an adjustment of the related yield using the interest method.

The accrual of interest on loans and leases is generally discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. Loans and leases are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued, but not collected for loans that are placed on nonaccrual status or charged-off, is charged against interest income. All interest accrued, but not collected, on leases that are placed on nonaccrual status is not charged against interest until the lease is charged-off at 120 days delinquent. The interest received on these nonaccrual loans and leases is applied to reduce the carrying value of loans and leases. Loans and leases are returned to accrual status when all the principal and interest amounts contractually due are brought current, remain current for at least six months and future payments are reasonably assured. Once a loan returns to accrual status, any interest payments collected during the nonaccrual period which had been applied to the principal balance are reversed and recognized as interest income over the remaining term of the loan.

In connection with the FBD transaction, the Corporation acquired \$76.6 million of loans from FBD. These acquired loans were recorded at their fair value. The difference between the recorded fair value and the principal value is accreted to interest income over the contractual lives of the loans in accordance with ASC 310-20 (formerly SFAS 91). Certain acquired loans which were deemed to be credit impaired at acquisition are accounted for in accordance with ASC 310-30 (formerly SOP 03-3), as discussed below, in subsection *H* of this footnote.



## **Table of Contents**

### **G. Allowance for Loan and Lease Losses**

The allowance for loan and lease losses (the Allowance ) is established through a provision for loan and lease losses (the Provision ) charged as an expense. The principal balances of loans and leases are charged against the Allowance when the Corporation believes that the principal is uncollectible. The Allowance is maintained at a level that the Corporation believes is sufficient to absorb estimated potential credit losses.

The Corporation's determination of the adequacy of the Allowance is based on periodic evaluations of the loan and lease portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires significant estimates by the Corporation. Consideration is given to a variety of factors in establishing these estimates including specific terms and conditions of loans and leases, underwriting standards, delinquency statistics, historical charge-off history by portfolio segment, industry concentration, overall exposure to a single customer, adequacy of collateral, the dependence on collateral, and results of internal loan review, including a borrower's perceived financial and management strengths, the amounts and timing of the present value of future cash flows, and the access to additional funds.

As part of the process of allocating the Allowance to the different segments of the loan and lease portfolio, the Corporation considers certain credit quality indicators. For the commercial mortgage, construction and commercial and industrial loan segments, periodic reviews of the individual loans are performed by both in-house staff as well as external third-party loan review specialists. The result of these reviews is reflected in the risk grade assigned to each loan. In addition, the remaining segments of the loan and lease portfolio, which include residential mortgage, home equity lines and loans, consumer loans, and leases, are allocated portions of the Allowance based on their performance status.

The evaluation process also considers the impact of competition, current and expected economic conditions, national and international events, the regulatory and legislative environment and inherent risks in the loan and lease portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from the Corporation's estimates, an additional Provision may be required that might adversely affect the Corporation's results of operations in future periods. In addition, various regulatory agencies, as an integral part of their examination processes, periodically review the adequacy of the Allowance. Such agencies may require the Corporation to record additions to the Allowance based on their judgment of information available to them at the time of their examination.

### **H. Impaired Loans and Leases**

A loan or lease is considered impaired when, based on current information, it is probable that the Corporation will be unable to collect the contractually scheduled payments of principal or interest. When assessing impairment, the Corporation considers various factors, which include payment status, realizable value of collateral and the probability of collecting scheduled principal and interest payments when due. Loans and leases that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

The Corporation determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured by either the present value of expected future cash flows discounted at the loan's contractual effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

In addition to originating loans, the Corporation occasionally acquires loans through mergers or loan purchase transactions. Some of these acquired loans may exhibit deteriorated credit quality that has occurred since origination and the Corporation may not expect to collect all contractual payments. Accounting for these

---

**Table of Contents**

purchased credit-impaired loans is done in accordance with ASC 310-30. The loans are recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition on these loans is based on a reasonable expectation about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral indeterminate, remain on nonaccrual status and have no accretable yield.

**I. Troubled Debt Restructurings ( TDR s )**

A TDR occurs when a creditor, for economic or legal reasons related to a borrower's financial difficulties, modifies the original terms of a loan or lease or grants a concession to the borrower that it would not otherwise have granted. A concession may include an extension of repayment terms, a reduction in the interest rate or the forgiveness of principal and/or accrued interest. If the debtor is experiencing financial difficulty and the creditor has granted a concession, the Corporation will make the necessary disclosures related to the TDR. In certain cases, a modification or concession may be made in an effort to retain a customer who is not experiencing financial difficulty. This type of modification is not considered a TDR.

**J. Other Real Estate Owned ( OREO )**

OREO consists of assets that the Corporation has acquired through foreclosure, by accepting a deed in lieu of foreclosure, or by taking possession of assets that were used as loan collateral. The Corporation reports OREO on the balance sheet within other assets, at the lower of cost or estimated fair value less cost to sell, adjusted periodically based on current appraisals. Costs relating to the development or improvement of assets, as well as the costs required to obtain legal title to the property, are capitalized, while costs related to holding the property are charged to expense as incurred.

**K. Other Investments and Federal Home Loan Bank Stock**

Other investments include Community Reinvestment Act ( CRA ) investments, and equity stocks without a readily determinable fair market value. The Corporation's investments in equity stocks include those issued by the Federal Home Loan Bank of Pittsburgh ( FHLB ), the Federal Reserve Bank and Atlantic Central Bankers Bank. The Corporation is required to hold FHLB stock as a condition of its borrowing funds from the FHLB. As of December 31, 2013, the carrying value of the Corporation's FHLB stock was \$11.7 million. Ownership of FHLB stock is restricted and there is no market for these securities. For further information on the FHLB stock, see Note 10 Short-Term and Other Borrowings .

**L. Premises and Equipment**

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation and predetermined rent are recorded using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the expected lease term or the estimated useful lives, whichever is shorter.

**M. Pension and Postretirement Benefit Plans**

The Corporation has one qualified defined-benefit pension plan, two non-qualified defined-benefit supplemental executive retirement plans and a postretirement benefit plan as discussed in Note 15 Pension and Postretirement Benefit Plans . Net pension expense related to the defined-benefit consists of service cost, interest cost, return on plan assets, amortization of prior service cost, amortization of transition obligations and amortization of net actuarial gains and losses. The Corporation accrues pension costs as incurred.

**N. Bank Owned Life Insurance ( BOLI )**

BOLI is recorded at its cash surrender value. Income from BOLI is tax-exempt and included as a component of other non-interest income.

---

**Table of Contents****O. Derivative Financial Instruments**

The Corporation recognizes all derivative financial instruments on its balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings immediately. To determine fair value, the Corporation uses valuations obtained from a third party which utilizes a pricing model that incorporates assumptions about market conditions and risks that are current as of the reporting date. Management reviews, annually, the inputs utilized by its independent third-party valuation experts.

The Corporation may use interest-rate swap agreements to modify the interest rate characteristics from variable to fixed or fixed to variable in order to reduce the impact of interest rate changes on future net interest income. The Corporation accounts for its interest-rate swap contracts in cash flow hedging relationships by establishing and documenting the effectiveness of the instrument in offsetting the change in cash flows of assets or liabilities that are being hedged. To determine effectiveness, the Corporation performs an analysis to identify if changes in fair value or cash flow of the derivative correlate to the equivalent changes in the forecasted interest receipts related to a specified hedged item. Recorded amounts related to interest-rate swaps are included in other assets or liabilities. The change in fair value of the ineffective part of the instrument would need to be charged to the statement of operations, potentially causing material fluctuations in reported earnings in the period of the change relative to comparable periods. In a fair value hedge, the fair values of the interest rate swap agreements and changes in the fair values of the hedged items are recorded in the Corporation's consolidated balance sheets with the corresponding gain or loss being recognized in current earnings. The difference between changes in the fair values of interest rate swap agreements and the hedged items represents hedge ineffectiveness and is recorded in net interest income in the statement of operations. The Corporation performs an assessment, both at the inception of the hedge and quarterly thereafter, to determine whether these derivatives are highly effective in offsetting changes in the value of the hedged items.

**P. Accounting for Stock-Based Compensation**

Stock-based compensation cost is measured at the grant date, based on the fair value of the award and is recognized as an expense over the vesting period.

All share-based payments, including grants of stock options, restricted stock awards and performance-based stock awards, are recognized as compensation expense in the statement of income at their fair value. The fair value of stock option grants is determined using the Black-Scholes pricing model which considers the expected life of the options, the volatility of stock price, risk-free interest rate and annual dividend yield. The fair value of the restricted stock awards is based on their market value on the grant date, while the fair value of the performance-based stock awards is based on their grant-date market value in addition to the likelihood of attaining certain pre-determined performance goals utilizing the Monte Carlo Simulation model.

**Q. Earnings Per Common Share**

Basic earnings per common share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted earnings per common share takes into account the potential dilution that would occur if in-the-money stock options were exercised and converted into common shares and restricted stock awards and performance-based stock awards were vested. Proceeds assumed to have been received on options exercises are assumed to be used to purchase shares of the Corporation's common stock at the average market price during the period, as required by the treasury stock method of accounting.



The effects of stock options are excluded from the computation of diluted earnings per share in periods in which the effect would be antidilutive. All weighted average shares, actual shares and per share information in the financial statements have been adjusted retroactively for the effect of stock dividends and splits.

## **Table of Contents**

### **R. Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Corporation recognizes the benefit of a tax position only after determining that the Corporation would more-likely-than-not sustain the position following an examination. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon settlement with the relevant tax authority. The Corporation applies these criteria to tax positions for which the statute of limitations remains open.

### **S. Revenue Recognition**

With the exception of nonaccrual loans and leases, the Corporation recognizes all sources of income on the accrual method.

Additional information relating to Wealth Management fee revenue recognition follows:

The Corporation earns Wealth Management fee revenue from a variety of sources including fees from trust administration and other related fiduciary services, custody, investment management and advisory services, employee benefit account and IRA administration, estate settlement, tax service fees, shareholder service fees and brokerage. These fees are generally based on asset values and fluctuate with the market. Some revenue is not directly tied to asset value but is based on a flat fee for services provided. For many of our revenue sources, amounts are not received in the same accounting period in which they are earned. However, each source of Wealth Management fees is recorded on the accrual method of accounting.

The most significant portion of the Corporation's Wealth Management fees is derived from trust administration and other related services, custody, investment management and advisory services, and employee benefit account and IRA administration. These fees are generally billed in arrears, based on the market value of assets at the end of the previous billing period. A smaller number of customers are billed in a similar manner, but on a quarterly or annual basis and some revenues are not based on market values.

The balance of the Corporation's Wealth Management fees includes estate settlement fees and tax service fees, which are recorded when the related service is performed and asset management and brokerage fees on non-depository investment products, which are received one month in arrears, based on settled transactions, but are accrued in the month the settlement occurs.

Included in other assets on the balance sheet is a receivable for Wealth Management fees that have been earned but not yet collected.

### **T. Mortgage Servicing**

A portion of the residential mortgage loans originated by the Corporation is sold to a third party; however the Corporation often retains the servicing duties related to these loans. A fee, usually based on a percentage of the

outstanding principal balance of the loan, is received in return for these services. Gains on the sale of these loans are based on the specific identification method.

An intangible asset, referred to as mortgage servicing rights (MSRs) is recognized when the loan servicing rights are retained upon sale of a loan. These MSRs amortize to non-interest expense in proportion to, and over the period of, the estimated future net servicing life of the underlying loans.

## **Table of Contents**

MSRs are evaluated quarterly for impairment based upon the fair value of the rights as compared to their amortized cost. Impairment is determined by stratifying the MSRs by predominant characteristics, such as interest rate and terms. Fair value is determined based upon discounted cash flows using market-based assumptions. Impairment is recognized on the income statement to the extent the fair value is less than the capitalized amount for the stratum. A valuation allowance is utilized to record temporary impairment in MSRs. Temporary impairment is defined as impairment that is not deemed permanent. Permanent impairment is recorded as a reduction of the MSR and is not reversed.

## **U. Statement of Cash Flows**

The Corporation's statement of cash flows details operating, investing and financing activities during the reported periods.

## **V. Goodwill and Intangible Assets**

The Corporation accounts for goodwill and other intangible assets in accordance with ASC 350, Intangibles—Goodwill and Other. The goodwill and intangible assets as of December 31, 2013, other than MSRs in Note 1-T above, are related to the acquisitions of Lau Associates, PWMG and DTC, which are components of the Wealth Management segment, and First Keystone Financial, Inc. ( FKF ), and FBD, which are components of the Banking segment. The amount of goodwill initially recorded is based on the fair value of the acquired entity at the time of acquisition. Goodwill impairment tests are performed annually, or when events occur or circumstances change that would more likely than not reduce the fair value of the acquisition or investment.

The Corporation's impairment testing methodology is consistent with the methodology prescribed in ASC 350. Other intangible assets include a core deposit intangible, which was acquired in the FKF merger and the FBD transaction, customer relationships, trade name and non-competition agreements acquired in connection with the acquisitions of DTC, PWMG and Lau Associates. The customer relationships, non-competition agreement and core deposit intangibles are amortized over the estimated useful lives of the assets. The trade name intangible has an indefinite life and is evaluated for impairment annually.

## **W. Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year's presentation.

## **X. Recent Accounting Pronouncements**

### **FASB ASU No. 2013-01 Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities**

In December 2011, the FASB issued Accounting Standards Update or ASU No. 2011-11, Disclosures About Offsetting Assets and Liabilities. This project began as an attempt to converge the offsetting requirements under U.S. GAAP and International Financial Reporting Standards ( IFRS ). However, as the FASB and International Accounting Standards Board were not able to reach a converged solution with regards to offsetting requirements, they each developed convergent disclosure requirements to assist in reconciling differences in the offsetting requirements under U.S. GAAP and IFRS. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. ASU No. 2011-11 also requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. In January 2013, the FASB issued ASU No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and

Liabilities. The provisions of ASU No. 2013-01 limit the scope of the new balance sheet offsetting disclosures to the following financial instruments, to the extent they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position: (1) derivative financial instruments; (2) repurchase agreements and reverse repurchase agreements; and (3) securities borrowing and securities lending transactions. The Corporation adopted the provisions of ASU No. 2011-11 and ASU No. 2013-01

## **Table of Contents**

effective January 1, 2013. The provisions of ASU No. 2011-11 and ASU No. 2013-01 only impacted the disclosure requirements related to the offsetting of assets and liabilities and information about instruments and transactions eligible for offset in the statement of financial position, the adoption of this amendment did not have a material effect on the Corporation's Consolidated Financial Statements.

### **FASB ASU No. 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income**

In February 2013, the FASB issued an update (ASU 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income) which requires entities to disclose, for items reclassified out of accumulated other comprehensive income ( AOCI ) and into net income in their entirety, the effect of the reclassification on each affected net income line item and, for AOCI reclassification items that are not reclassified in their entirety into net income, a cross reference to other required U.S. GAAP disclosures. The guidance is effective for annual and interim reporting periods beginning after December 15, 2012; early adoption is allowed. The Corporation has adopted this ASU. For more information, see Note 16, below.

### **FASB ASU No. 2013-10 Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes**

In July 2013, the FASB issued ASU 2013-10 Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes which permits the uses of this alternative benchmark interest rate, in addition to the U.S. government rate (UST) and London Interbank Offered Rate (LIBOR), as a U.S. benchmark interest rate for hedge accounting purposes under FASB ASC Topic 815, Derivatives and Hedging. The ASU is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Corporation currently uses LIBOR as a benchmark for hedge accounting purposes. As such, Management does not expect ASU 2013-10 to have any impact on its financial condition and results of operations.

### **FASB ASU No. 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operation Loss Carryforward, a Similar Tax Loss, or a Tax Credit Exists**

In July 2013, the FASB issued ASU 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operation Loss carryforward, a Similar Tax Loss, or a Tax Credit Exists which requires an entity to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss ( NOL ) carryforward, or similar tax loss or tax credit carryforward, rather than as a liability when (1) the uncertain tax position would reduce the NOL or other carryforward under the tax law of the applicable jurisdiction and (2) the entity intends to use the deferred tax asset for that purpose. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Management does not expect ASU 2013-11 to have any impact on its financial condition and results of operations.

### **FASB ASU 2014-04, Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force).**

Issued in January 2014, ASU 2014-04 clarifies when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loans, such that all or a portion of the loan should be derecognized and the real estate property recognized. ASU 2014-04 states that a creditor is considered to have received physical possession of residential real

estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion

**Table of Contents**

of a deed in lieu of foreclosure or through a similar legal agreement. The amendments of ASU 2014-04 also require interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amendments of ASU 2014-04 are effective for interim and annual periods beginning after December 15, 2014, and may be applied using either a modified retrospective transition method or a prospective transition method as described in ASU 2014-04. The adoption of ASU 2014-04 will be change in presentation only for the newly required disclosures and is not expect to have a significant impact to the Corporation's consolidated financial statements.

**Note 2 Business Combinations****First Bank of Delaware**

The acquisition of certain loan and deposit accounts and a branch location from First Bank of Delaware ( FBD ) by the Corporation (the FBD Transaction ) was completed on November 17, 2012.

First Bank of Delaware, established in June 1999, was a \$250 million state-chartered commercial bank operating from one full-service branch location in Wilmington, Delaware. Subsequent to the transaction with the Corporation, FBD's remaining assets were transferred to a liquidating trust and its charter was cancelled. The FBD Transaction enabled the Corporation to further expand its footprint in the State of Delaware by complementing its existing wealth management operations of Bryn Mawr Trust of Delaware and Lau Associates, both located in Greenville, Delaware.

The FBD Transaction was accounted for as a business combination, with assets acquired, liabilities assumed and consideration paid recorded at their estimated fair values as of the acquisition date. The excess of consideration paid over the fair value of net assets acquired was recorded as goodwill, which will not be amortizable for book purposes, however will be deductible for tax purposes. The Corporation allocated the total balance of goodwill to its Banking segment. The Corporation also recorded a core deposit intangible which will be amortized over a ten-year period using a declining-balance method.

In connection with the FBD Transaction, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

*(dollars in thousands)*

<b>Consideration paid:</b>	
Cash	\$ 10,559
Value of consideration	10,559
<b>Assets acquired:</b>	
Cash and due from banks	525
Loans	76,556
Premises and equipment	460
Core deposit intangible	320
Other assets	256
Total assets	78,117
<b>Liabilities assumed:</b>	



Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Nonmaturity deposits	27,080
Time deposits	43,257
Unfavorable lease	140
Other liabilities	390
Total liabilities	70,867
<b>Net assets acquired</b>	<b>7,250</b>
<b>Goodwill resulting from the FBD Transaction</b>	<b>\$ 3,309</b>

**Table of Contents**

As of March 31, 2013, the Corporation had finalized its fair value estimates related to the FBD Transaction. No adjustments were made to the original estimates.

**Davidson Trust Company**

The acquisition of the Davidson Trust Company ( DTC ) by the Corporation was completed on May 15, 2012. In addition to cash paid at closing, three separate contingent payments, each of which was not to exceed \$1.05 million, were payable on each of November 14, 2012, May 14, 2013 and November 14, 2013. These contingent payments were subject to certain post-closing contingencies relating to the assets under management. As of December 31, 2013, all contingent payments, which totaled \$3.15 million had been made.

The structure of the Corporation's existing Wealth Management segment allowed the Corporation to integrate the operations of DTC into its existing wealth operations and enabled it to take advantage of the various synergies that existed between the two companies. The acquisition of DTC initially increased the Corporation's Wealth Management Division assets under management by \$1.0 billion.

The acquisition of DTC was accounted for as a business combination, with assets acquired, liabilities assumed and consideration paid being recorded at their estimated fair values as of the acquisition date. The excess of consideration paid over the fair value of net assets acquired was recorded as goodwill. The Corporation allocated the total balance of goodwill to its Wealth Management segment. The Corporation also recorded an intangible asset for customer relationships, which is being amortized over a ten-year period using a straight-line method, an intangible asset for restrictive covenant agreements, which is being amortized over a five-year period using a straight-line method and an intangible asset for trade name which will not be amortized.

In connection with the DTC acquisition, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

*(dollars in thousands)*

<b>Consideration paid:</b>	
Cash	\$ 10,500
<b>Assets acquired:</b>	
Cash operating accounts	1,433
Other assets	201
Intangible asset - customer relationships	3,720
Intangible asset - noncompetition agreements	1,385
Intangible asset - brand	970
Premises and equipment	117
Deferred tax asset	839
<b>Total assets</b>	<b>8,665</b>
<b>Liabilities assumed:</b>	
Deferred tax liability	2,125
Miscellaneous liabilities	885
<b>Total liabilities</b>	<b>3,010</b>

**Net assets acquired** 5,655

**Goodwill resulting from acquisition of DTC** \$ 4,845

During the 2<sup>nd</sup> quarter of 2013, the Corporation increased its estimated value for the deferred tax asset acquired in the DTC acquisition by \$54 thousand. This resulted in a corresponding decrease of \$54 thousand in goodwill recorded in the transaction.

As of June 30, 2013, the Corporation had finalized its fair value estimates related to the acquisition of DTC.

**Table of Contents****Note 3 Goodwill & Other Intangible Assets**

The Corporation completed an annual impairment test for goodwill and other intangibles during the fourth quarter of 2013. There was no goodwill impairment and no material impairment to identifiable intangibles recorded during 2012 or 2013. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

The Corporation's goodwill and intangible assets related to the acquisitions of Lau Associates in July, 2008, FKF in July, 2010, PWMG in May, 2011, DTC in May, 2012 and FBD in November, 2012 for the years ending December 31, 2013 and 2012 are as follows:

		<b>Beginning Balance 12/31/12</b>	<b>Additions/ Adjustments</b>	<b>Amortization</b>	<b>Ending Balance 12/31/13</b>	<b>Amortization Period</b>
<i>(dollars in thousands)</i>						
Goodwill	Wealth segment	\$ 20,466	\$ (54)	\$	\$ 20,412	Indefinite
Goodwill	Banking segment	12,431			12,431	Indefinite
<b>Total</b>		<b>\$ 32,897</b>	<b>\$ (54)</b>	<b>\$</b>	<b>\$ 32,843</b>	
Core deposit intangible		\$ 1,654	\$	\$ (312)	\$ 1,342	10 Years
Customer relationships		14,890		(1,295)	13,595	10 to 20 Years
Non-compete agreements		4,244		(1,026)	3,218	5 to 5 ½ Years
Trade name		1,210			1,210	Indefinite
<b>Total</b>		<b>\$ 21,998</b>	<b>\$</b>	<b>\$ (2,633)</b>	<b>\$ 19,365</b>	
<b>Grand total</b>		<b>\$ 54,895</b>	<b>\$ (54)</b>	<b>\$ (2,633)</b>	<b>\$ 52,208</b>	

		<b>Beginning Balance 12/31/11</b>	<b>Additions/ Adjustments</b>	<b>Amortization</b>	<b>Ending Balance 12/31/12</b>	<b>Amortization Period</b>
<i>(dollars in thousands)</i>						
Goodwill	Wealth segment	\$ 15,567	\$ 4,899	\$	\$ 20,466	Indefinite
Goodwill	Banking segment	9,122	3,309		12,431	Indefinite
<b>Total</b>		<b>\$ 24,689</b>	<b>\$ 8,208</b>	<b>\$</b>	<b>\$ 32,897</b>	
Core deposit intangible		\$ 1,628	\$ 320	\$ (294)	\$ 1,654	10 Years
Customer relationships		12,376	3,720	(1,206)	14,890	10 to 20 Years
Non-compete agreements		3,770	1,385	(911)	4,244	5 to 5 ½ Years
Trade name		240	970		1,210	Indefinite
<b>Total</b>		<b>\$ 18,014</b>	<b>\$ 6,395</b>	<b>\$ (2,411)</b>	<b>\$ 21,998</b>	
<b>Grand total</b>		<b>\$ 42,703</b>	<b>\$ 14,603</b>	<b>\$ (2,411)</b>	<b>\$ 54,895</b>	

**Note 4 Investment Securities**

The amortized cost and estimated fair value of investments, which were classified as available for sale, are as follows:

As of December 31, 2013

<i>(dollars in thousands)</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
U.S. Treasury securities	\$ 102	\$	\$ (3)	\$ 99
Obligations of the U.S. government and agencies	71,097	149	(1,678)	69,568
Obligations of state and political subdivisions	37,140	141	(304)	36,977
Mortgage-backed securities	119,044	1,392	(1,073)	119,363
Collateralized mortgage obligations	44,463	273	(493)	44,243
Other investments	15,281	301	(24)	15,558
<b>Total</b>	<b>\$ 287,127</b>	<b>\$ 2,256</b>	<b>\$ (3,575)</b>	<b>\$ 285,808</b>

**Table of Contents**

As of December 31, 2012

<i>(dollars in thousands)</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
Obligations of the U.S. government and agencies	\$ 73,183	\$ 796	\$ (107)	\$ 73,872
Obligations of state and political subdivisions	30,244	199	(59)	30,384
Mortgage-backed securities	128,537	3,302	(13)	131,826
Collateralized mortgage obligations	62,116	622	(35)	62,703
Other investments	17,667	162		17,829
<b>Total</b>	<b>\$ 311,747</b>	<b>\$ 5,081</b>	<b>\$ (214)</b>	<b>\$ 316,614</b>

The following table shows the amount of securities that were in an unrealized loss position at December 31, 2013:

<i>(dollars in thousands)</i>	<b>Less than 12 Months</b>		<b>12 Months or Longer</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
U.S. Treasury securities	\$ 99	\$ (3)	\$	\$	\$ 99	\$ (3)
Obligations of the U.S. government and agencies	41,201	(1,391)	5,774	(287)	46,975	(1,678)
Obligations of state and political subdivisions	13,020	(233)	4,543	(71)	17,563	(304)
Mortgage-backed securities	55,672	(972)	2,302	(101)	57,974	(1,073)
Collateralized mortgage obligations	26,395	(493)			26,395	(493)
Other investments	1,494	(24)			1,494	(24)
<b>Total</b>	<b>\$ 137,881</b>	<b>\$ (3,116)</b>	<b>\$ 12,619</b>	<b>\$ (459)</b>	<b>\$ 150,500</b>	<b>\$ (3,575)</b>

The following table shows the amount of securities that were in an unrealized loss position at December 31, 2012:

<i>(dollars in thousands)</i>	<b>Less than 12 Months</b>		<b>12 Months or Longer</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Obligations of the U.S. government and agencies	\$ 20,032	\$ (107)	\$	\$	\$ 20,032	\$ (107)
Obligations of state and political subdivisions	10,752	(59)			10,752	(59)
Mortgage-backed securities	12,602	(13)			12,602	(13)
Collateralized mortgage obligations	10,040	(35)			10,040	(35)
<b>Total</b>	<b>\$ 53,426</b>	<b>\$ (214)</b>	<b>\$</b>	<b>\$</b>	<b>\$ 53,426</b>	<b>\$ (214)</b>

Management evaluates the Corporation's investment securities that are in an unrealized loss position in order to determine if the decline in market value is other than temporary. The investment portfolio includes debt securities issued by U.S. government agencies, U.S. government-sponsored agencies, state and local municipalities and other issuers. All fixed income investment securities in the Corporation's investment portfolio are rated as investment-grade or higher. Factors considered in the evaluation include the current economic climate, the length of time and the extent to which the fair value has been below cost, interest rates and the bond rating of each security. The unrealized losses presented in the tables above are temporary in nature and are primarily related to market interest rates rather than the underlying credit quality of the issuers. Management does not believe that these unrealized losses are other-than-temporary. The Corporation does not have the intent to sell these securities prior to their maturity or the recovery of their cost bases and believes that it is more likely, than not, that it will not have to sell these securities prior to their maturity or the recovery of their cost bases.

**Table of Contents**

At December 31, 2013, securities having a fair value of \$94.9 million were specifically pledged as collateral for public funds, trust deposits, the FRB discount window program, FHLB borrowings and other purposes. The FHLB has a blanket lien on non-pledged, mortgage-related loans and securities as part of the Corporation's borrowing agreement with the FHLB.

The amortized cost and estimated fair value of investment and mortgage-related securities as of December 31, 2013 and 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>December 31, 2013</b>	
	<b>Amortized</b>	<b>Estimated</b>
<i>(dollars in thousands)</i>	<b>Cost</b>	<b>Market</b>
		<b>Value</b>
Investment securities*:		
Due in one year or less	\$ 7,859	\$ 7,869
Due after one year through five years	49,790	49,721
Due after five years through ten years	51,793	50,117
Due after ten years	797	824
Subtotal	110,239	108,531
Mortgage-related securities	163,507	163,606
Total	\$ 273,746	\$ 272,137

\* Included in the investment portfolio, but not in the table above, are mutual funds with an estimated market value, as of December 31, 2013, of \$13.7 million, which have no stated maturity.

	<b>December 31, 2012</b>	
	<b>Amortized</b>	<b>Estimated</b>
<i>(dollars in thousands)</i>	<b>Cost</b>	<b>Market</b>
		<b>Value</b>
Investment securities*:		
Due in one year or less	\$ 10,571	\$ 10,590
Due after one year through five years	38,056	38,171
Due after five years through ten years	40,635	40,714
Due after ten years	18,415	19,044
Subtotal	107,677	108,519
Mortgage-related securities	190,653	194,529
Total	\$ 298,330	\$ 303,048



\* *Included in the investment portfolio, but not in the table above, are mutual funds with an estimated market value, as of December 31, 2012, of \$13.4 million, which have no stated maturity.*

Proceeds from the sale of available for sale investment securities totaled \$14.9 million, \$40.6 million and \$89.7 million for the twelve months ended December 31, 2013, 2012 and 2011, respectively. Loss on sale of available for sale investment securities for the twelve months ended December 31, 2013 totaled \$8 thousand. Gain on sale of available for sale investment securities for the twelve months ended December 31, 2012 and 2011 totaled \$1.4 million and \$1.8 million, respectively.

As of December 31, 2013 and December 31, 2012, the Corporation's investment securities held in trading accounts were comprised of a deferred compensation trust which is invested in marketable securities whose diversification is at the discretion of the deferred compensation plan participants.

**Table of Contents****Note 5 Loans and Leases****A. Loans and leases outstanding are detailed by portfolio segment as follows:**

<i>(dollars in thousands)</i>	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Loans held for sale	\$ 1,350	\$ 3,412
Real estate loans:		
Commercial mortgage	\$ 625,341	\$ 546,358
Home equity lines and loans	189,571	194,861
Residential mortgage	300,243	288,212
Construction	46,369	26,908
Total real estate loans	1,161,524	1,056,339
Commercial and industrial	328,459	291,620
Consumer	16,926	17,666
Leases	40,276	32,831
Total portfolio loans and leases	1,547,185	1,398,456
Total loans and leases	\$ 1,548,535	\$ 1,401,868
Loans with predetermined rates	\$ 850,168	\$ 723,417
Loans with adjustable or floating rates	698,367	678,451
Total loans and leases	\$ 1,548,535	\$ 1,401,868
Net deferred loan origination costs included in the above loan table	\$ 222	\$ 402

**B. Leases outstanding at December 31 are detailed by components of the net investment as follows:**

<i>(dollars in thousands)</i>	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Minimum lease payments receivable	\$ 45,866	\$ 37,349
Unearned lease income	(7,534)	(6,099)
Initial direct costs and deferred fees	1,944	1,581
Total	\$ 40,276	\$ 32,831

**Table of Contents****C. Non-Performing Loans and Leases\***

<i>(dollars in thousands)</i>	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Nonaccrual loans and leases:</b>		
Commercial mortgage	\$ 478	\$ 631
Home equity lines and loans	1,262	2,792
Residential mortgage	4,377	3,748
Construction	830	3,314
Commercial and industrial	3,539	3,506
Consumer	20	7
Leases	24	42
<b>Total</b>	<b>10,530</b>	<b>14,040</b>
<b>Loans and leases 90 days or more past due and still accruing:</b>		
Construction		728
<b>Total non-performing loans and leases</b>	<b>\$ 10,530</b>	<b>\$ 14,768</b>

\* *Purchased credit-impaired loans, which have been recorded at their fair values at the acquisition date and which are performing as expected are excluded from this table with the exception of \$238 thousand and \$90 thousand as of December 31, 2013 and 2012, respectively, of purchased credit-impaired loans which became non-performing subsequent to the merger.*

**D. Purchased Credit-Impaired Loans**

The outstanding principal balance and related carrying amount of credit-impaired loans, for which the Corporation applies ASC 310-30 to account for the interest earned, as of the dates indicated, is as follows:

<i>(dollars in thousands)</i>	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Outstanding principal balance	\$ 14,293	\$ 19,527
Carrying amount <sup>(1)</sup>	\$ 9,880	\$ 12,128

<sup>(1)</sup> *Includes \$293 thousand and \$319 thousand of purchased credit-impaired loans as of December 31, 2013 and 2012, respectively, for which the Corporation could not estimate the timing or amount of expected cash flows to be collected at the acquisition date, and for which no accretable yield is recognized. Additionally, the table above includes \$238 thousand and \$90 thousand as of December 31, 2013 and 2012, respectively, of purchased credit-impaired loans that subsequently became non-performing, which are disclosed in Note 5C, above, and which also have no accretable yield.*

The following table presents changes in the accretable discount on purchased credit-impaired loans, for which the Corporation applies ASC 310-30, for the twelve month periods ended December 31, 2012 and 2013:

<i>(dollars in thousands)</i>	<b>Accretable Discount</b>
Balance, December 31, 2011	\$ 9,537
Accretion	(1,458)
Reclassification from nonaccretable difference	1,299
Additions/adjustments	18
Disposals	(1,371)
Balance, December 31, 2012	8,025
Accretion	(1,893)
Reclassification from nonaccretable difference	1,198
Additions/adjustments	(257)
Disposals	(939)
Balance, December 31, 2013	\$ 6,134

**Table of Contents****E. Age Analysis of Past Due Loans and Leases**

The following tables present an aging of the Corporation's loan and lease portfolio as of December 31, 2013 and 2012:

	Accruing Loans and Leases					Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
	30 Days Past Due	59 Days Past Due	60 Days Past Due	89 Days Past Due	Over 89 Days Total Past Due			
<i>(dollars in thousands)</i>								
<b>As of December 31, 2013</b>								
Commercial mortgage	\$ 241	\$	\$	\$	\$ 241	\$ 624,622	\$ 478	\$ 625,341
Home equity lines and loans	209				209	188,100	1,262	189,571
Residential mortgage	773	35			808	295,058	4,377	300,243
Construction						45,539	830	46,369
Commercial and industrial	334				334	324,586	3,539	328,459
Consumer	2	4			6	16,900	20	16,926
Leases	60	60			120	40,132	24	40,276
	\$ 1,619	\$ 99	\$	\$	\$ 1,718	\$ 1,534,937	\$ 10,530	\$ 1,547,185

	Accruing Loans and Leases					Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
	30 Days Past Due	59 Days Past Due	60 Days Past Due	89 Days Past Due	Over 89 Days Total Past Due			
<i>(dollars in thousands)</i>								
<b>As of December 31, 2012</b>								
Commercial mortgage	\$ 704	\$ 130	\$	\$	\$ 834	\$ 544,893	\$ 631	\$ 546,358
Home equity lines and loans	107	84			191	191,878	2,792	194,861
Residential mortgage	399	141			540	283,924	3,748	288,212
Construction				728	728	22,866	3,314	26,908
Commercial and industrial	376	50			426	287,688	3,506	291,620
Consumer	8	7			15	17,644	7	17,666
Leases	33	13			46	32,743	42	32,831
	\$ 1,627	\$ 425	\$ 728	\$ 2,780	\$ 1,381,636	\$ 1,384,416	\$ 14,040	\$ 1,398,456

**F. Allowance for Loan and Lease Losses (the Allowance )**

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

The following table details the roll-forward of the Corporation's allowance for loan and lease losses, by portfolio segment, for the twelve months ended December 31, 2013:

	<b>Home Equity</b>		<b>Commercial and</b>			<b>Consumer Leases</b>		<b>Unallocated</b>	<b>Total</b>
<i>(dollars in thousands)</i>	<b>Commercial Mortgage</b>	<b>Loans</b>	<b>Residential Mortgage</b>	<b>Construction</b>	<b>Industrial</b>	<b>Consumer Leases</b>	<b>Unallocated</b>	<b>Total</b>	
Balance, December 31, 2012	\$ 3,907	\$ 1,857	\$ 2,024	\$ 1,019	\$ 4,637	\$ 189	\$ 493	\$ 299	\$ 14,425
Charge-offs	(71)	(513)	(307)	(737)	(781)	(194)	(376)		(2,979)
Recoveries	20	67	18	24	65	10	290		494
Provision for loan and lease losses	(59)	793	711	539	1,090	254	197	50	3,575
Balance, December 31, 2013	\$ 3,797	\$ 2,204	\$ 2,446	\$ 845	\$ 5,011	\$ 259	\$ 604	\$ 349	\$ 15,515

**Table of Contents**

The following table details the roll-forward of the Corporation's allowance for loan and lease losses, by portfolio segment, for the twelve months ended December 31, 2012:

<i>(dollars in thousands)</i>	Home Equity			Commercial and Residential				Unallocated	Total
	Commercial Mortgage	Lines and Loans	Residential Mortgage	Construction	Industrial	Consumer	Leases		
Balance, December 31, 2011	\$ 3,165	\$ 1,707	\$ 1,592	\$ 1,384	\$ 3,816	\$ 119	\$ 532	\$ 438	\$ 12,753
Charge-offs	(234)	(375)	(209)	(1,131)	(458)	(96)	(364)		(2,867)
Recoveries	4		75	15	143	7	292		536
Provision for loan and lease losses	972	525	566	751	1,136	159	33	(139)	4,003
Balance, December 31, 2012	\$ 3,907	\$ 1,857	\$ 2,024	\$ 1,019	\$ 4,637	\$ 189	\$ 493	\$ 299	\$ 14,425

The following table details the roll-forward of the Corporation's allowance for loan and lease losses, by portfolio segment, for the twelve months ended December 31, 2011:

<i>(dollars in thousands)</i>	Home Equity			Commercial and Residential				Unallocated	Total
	Commercial Mortgage	Lines and Loans	Residential Mortgage	Construction	Industrial	Consumer	Leases		
Balance, December 31, 2010	\$ 2,534	\$ 1,563	\$ 843	\$ 633	\$ 3,565	\$ 115	\$ 766	\$ 256	\$ 10,275
Charge-offs	(827)	(514)	(391)	(1,174)	(633)	(92)	(1,017)		(4,648)
Recoveries		190			307	11	530		1,038
Provision for loan and lease losses	1,458	468	1,140	1,925	577	85	253	182	6,088
Balance, December 31, 2011	\$ 3,165	\$ 1,707	\$ 1,592	\$ 1,384	\$ 3,816	\$ 119	\$ 532	\$ 438	\$ 12,753

**Table of Contents**

The following table details the allocation of the allowance for loan and lease losses by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2013 and 2012:

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Residential Mortgage	Commercial and Industrial Construction	Consumer	Leases	Unallocated	Total		
<b>As of December 31, 2013</b>									
<b>Allowance on loans and leases:</b>									
Individually evaluated for impairment	\$	\$ 121	\$ 814	\$	\$ 532	\$ 52	\$	\$ 1,519	
Collectively evaluated for impairment	3,797	2,083	1,632	845	4,479	207	604	349	13,996
Purchased credit-impaired*									
Total	\$ 3,797	\$ 2,204	\$ 2,446	\$ 845	\$ 5,011	\$ 259	\$ 604	\$ 349	\$ 15,515

<b>As of December 31, 2012</b>									
<b>Allowance on loans and leases:</b>									
Individually evaluated for impairment	\$	\$ 217	\$ 667	\$ 543	\$ 919	\$ 8	\$	\$ 2,354	
Collectively evaluated for impairment	3,894	1,640	1,357	451	3,718	181	493	299	12,033
Purchased credit-impaired*	13			25					38
Total	\$ 3,907	\$ 1,857	\$ 2,024	\$ 1,019	\$ 4,637	\$ 189	\$ 493	\$ 299	\$ 14,425

The following table details the carrying value for loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2013 and 2012:

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Residential Mortgage	Commercial and Industrial Construction	Consumer	Leases	Total	
<b>As of December 31, 2013</b>							
<b>Balance of loans and leases:</b>							
	\$ 236	\$ 1,428	\$ 9,860	\$ 1,172	\$ 4,758	\$ 52	\$ 17,506



Individually evaluated for impairment								
Collectively evaluated for impairment	616,077	188,128	290,345	44,715	323,384	16,874	40,276	1,519,799
Purchased credit-impaired*	9,028	15	38	482	317			9,880
Total	\$ 625,341	\$ 189,571	\$ 300,243	\$ 46,369	\$ 328,459	\$ 16,926	\$ 40,276	\$ 1,547,185

**As of December 31, 2012**

**Balance of loans and leases:**

Individually evaluated for impairment	\$ 541	\$ 3,403	\$ 9,211	\$ 4,631	\$ 3,997	\$ 7	\$	\$ 21,790
Collectively evaluated for impairment	535,506	191,439	278,951	20,785	287,367	17,659	32,831	1,364,538
Purchased credit-impaired*	10,311	19	50	1,492	256			12,128
Total	\$ 546,358	\$ 194,861	\$ 288,212	\$ 26,908	\$ 291,620	\$ 17,666	\$ 32,831	\$ 1,398,456

\* *Purchased credit-impaired loans are evaluated for impairment on an individual basis*

**Table of Contents**

As part of the process of allocating the allowance to the different segments of the loan and lease portfolio, Management considers certain credit quality indicators. For the commercial mortgage, construction and commercial and industrial loan segments, periodic reviews, at least quarterly, of the individual loans are performed by both in-house staff as well as external loan reviewers. The result of these reviews is reflected in the risk grade assigned to each loan. These internally assigned grades are as follows:

**Pass** Loans considered satisfactory with no indications of deterioration.

**Special mention** - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard** Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

In addition, the remaining segments of the loan and lease portfolio, which include residential mortgage, home equity lines and loans, consumer, and leases, are allocated portions of the allowance based on their performance status.

The following tables detail the carrying value of loans and leases by portfolio segment based on the credit quality indicators used to allocate the allowance for loan and lease losses as of December 31, 2013 and 2012:

<i>(dollars in thousands)</i>	<b>Credit Risk Profile by Internally Assigned Grade</b>							
	<b>Commercial Mortgage</b>		<b>Construction</b>		<b>Commercial and Industrial</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>As of December 31,</b>								
Pass	\$ 620,227	\$ 538,470	\$ 43,812	\$ 16,504	\$ 320,211	\$ 278,167	\$ 984,250	\$ 833,141
Special Mention	2,793	2,215		1,317	387	6,256	3,180	9,788
Substandard	2,321	5,673	2,557	9,087	7,861	7,197	12,739	21,957
<b>Total</b>	<b>\$ 625,341</b>	<b>\$ 546,358</b>	<b>\$ 46,369</b>	<b>\$ 26,908</b>	<b>\$ 328,459</b>	<b>\$ 291,620</b>	<b>\$ 1,000,169</b>	<b>\$ 864,886</b>

**Credit Risk Profile Based on Payment Activity**

<i>(dollars in thousands)</i>	<b>Consumer</b>	<b>Leases</b>	<b>Total</b>
Table of Contents			170

	Residential Mortgage		Home Equity Lines and Loans		2013	2012	2013	2012	2013	2012
	2013	2012	2013	2012						
<b>As of December 31,</b>										
performing	\$ 295,866	\$ 284,464	\$ 188,309	\$ 192,069	\$ 16,906	\$ 17,659	\$ 40,252	\$ 32,789	\$ 541,333	\$ 526,981
non-performing	4,377	3,748	1,262	2,792	20	7	24	42	5,683	6,589
<b>Total</b>	<b>\$ 300,243</b>	<b>\$ 288,212</b>	<b>\$ 189,571</b>	<b>\$ 194,861</b>	<b>\$ 16,926</b>	<b>\$ 17,666</b>	<b>\$ 40,276</b>	<b>\$ 32,831</b>	<b>\$ 547,016</b>	<b>\$ 533,570</b>

#### G. Troubled Debt Restructurings ( TDRs ):

The restructuring of a loan is considered a troubled debt restructuring if both of the following conditions are met: (i) the borrower is experiencing financial difficulties, and (ii) the creditor has granted a concession. The most common concessions granted include one or more modifications to the terms of the debt, such as (a) a

**Table of Contents**

reduction in the interest rate for the remaining life of the debt, (b) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (c) a temporary period of interest-only payments, (d) a reduction in the contractual payment amount for either a short period or remaining term of the loan, or (e) for leases, a reduced lease payment. A less common concession granted is the forgiveness of a portion of the principal.

The determination of whether a borrower is experiencing financial difficulties takes into account not only the current financial condition of the borrower, but also the potential financial condition of the borrower, if a concession were not granted. The determination of whether a concession has been granted is subjective in nature. For example, simply extending the term of a loan at its original interest rate or even at a higher interest rate could be interpreted as a concession unless the borrower could readily obtain similar credit terms from a different lender.

The following table presents the balance of TDRs as of the indicated dates:

<i>(dollars in thousands)</i>	December 31, 2013	December 31, 2012
TDRs included in nonperforming loans and leases	\$ 1,699	\$ 3,106
TDRs in compliance with modified terms	7,277	8,008
<b>Total TDRs</b>	<b>\$ 8,976</b>	<b>\$ 11,114</b>

The following table presents information regarding loan and lease modifications granted during the twelve months ended December 31, 2013 that were categorized as TDRs:

<i>(dollars in thousands)</i>	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential	2	\$ 674	\$ 674
Commercial and industrial	2	930	930
Home equity lines and loans	2	40	40
Consumer	1	33	33
Leases	3	33	33
<b>Total</b>	<b>10</b>	<b>\$ 1,710</b>	<b>\$ 1,710</b>

The following table presents information regarding the types of loan and lease modifications made for the twelve months ended December 31, 2013:

		Number of Contracts			
Interest Rate Change	Loan Term Extension	Interest Rate Change and Term Extension	Interest-Only Period	Contractual Payment Reduction	Forgiveness of Interest

			(Leases only)		
Residential		1			1
Commercial and industrial			2		
Home equity lines and loans	1		1		
Consumer	1				
Leases				3	
Total	2	1	3	3	1

**Table of Contents**

The following table presents information regarding loan and lease modifications granted during the twelve months ended December 31, 2012 that were categorized as TDRs:

<i>(dollars in thousands)</i>	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential	3	\$ 1,235	\$ 1,235
Commercial and industrial	1	39	39
Home equity lines and loans	5	908	919
Leases	4	43	43
<b>Total</b>	<b>13</b>	<b>\$ 2,225</b>	<b>\$ 2,236</b>

The following table presents information regarding the types of loan and lease modifications made for the twelve months ended December 31, 2012:

	Number of Contracts				
	Interest Rate Change	Loan Term Extension	Interest Rate Change and Term Extension	Interest Rate Change with Interest-Only Period	Contractual Payment Reduction (Leases only)
Residential.		1	2		
Commercial and industrial			1		
Home equity lines and loans	1		3	1	
Leases					4
<b>Total</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>1</b>	<b>4</b>

During the twelve months ended December 31, 2013, there were no defaults of loans or leases that had been previously modified to TDRs.

**Table of Contents****H. Impaired Loans**

The following tables detail the recorded investment and principal balance of impaired loans by portfolio segment, their related allowance for loan and lease losses and interest income recognized for the twelve months ended December 31, 2013, 2012 and 2011 (purchased credit-impaired loans are not included in the tables):

	Recorded Investment**	Principal Balance	Related Allowance	Average Principal Balance	Interest income recognized	Cash-Basis Interest Income Recognized
<i>(dollars in thousands)</i>						
<b>As of or for the Twelve Months Ended December 31, 2013</b>						
Impaired loans with related allowance:						
Home equity lines and loans	\$ 277	\$ 279	\$ 121	\$ 308	\$ 6	\$
Residential mortgage	5,297	5,312	814	5,343	95	
Commercial and industrial	2,985	3,100	532	3,210	82	
Consumer	52	54	52	49	3	
<b>Total</b>	<b>8,611</b>	<b>8,745</b>	<b>1,519</b>	<b>8,910</b>	<b>186</b>	
Impaired loans* without related allowance:						
Commercial mortgage	236	237		283		
Home equity lines and loans	1,151	1,159		1,252	6	
Residential mortgage	4,563	4,911		5,177	123	
Construction	1,172	2,134		3,452	27	
Commercial and industrial	1,773	1,954		1,979	23	
<b>Total</b>	<b>8,895</b>	<b>10,395</b>		<b>12,143</b>	<b>179</b>	
<b>Grand total</b>	<b>\$ 17,506</b>	<b>\$ 19,140</b>	<b>\$ 1,519</b>	<b>\$ 21,053</b>	<b>\$ 365</b>	<b>\$</b>

\* The table above does not include the recorded investment of \$63 thousand of impaired leases without a related allowance for loan and lease losses.

\*\* Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal.

	Recorded Investment**	Principal Balance	Related Allowance	Average Principal Balance	Interest income recognized	Cash-Basis Interest Income Recognized
<i>(dollars in thousands)</i>						
<b>As of or for the Twelve Months Ended December 31, 2012</b>						

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Impaired loans with related allowance:

Home equity lines and loans	\$ 1,261	\$ 1,321	\$ 217	\$ 1,327	\$ 42	\$
Residential mortgage	4,778	4,793	667	4,764	152	
Construction	2,564	2,564	543	3,272		
Commercial and industrial	3,357	3,383	919	3,402	49	
Consumer	7	8	8	10		

Total	11,967	12,069	2,354	12,775	243	
-------	--------	--------	-------	--------	-----	--

Impaired loans\* without related allowance:

Commercial mortgage	541	574		581	14	
Home equity lines and loans	2,142	2,223		2,478	22	
Residential mortgage	4,433	4,741		4,735	154	
Construction	2,067	2,317		3,461	58	
Commercial and industrial	640	639		645	16	

Total	9,823	10,494		11,900	264	
-------	-------	--------	--	--------	-----	--

Grand total	\$ 21,790	\$ 22,563	\$ 2,354	\$ 24,675	\$ 507	\$
-------------	-----------	-----------	----------	-----------	--------	----

\* The table above does not include the recorded investment of \$168 thousand of impaired leases without a related allowance for loan and lease losses.

\*\* Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal.



**Table of Contents**

<i>(dollars in thousands)</i>	<b>Recorded Investment</b>	<b>Principal Balance</b>	<b>Related Allowance</b>	<b>Average Principal Balance</b>	<b>Interest income recognized</b>	<b>Cash-Basis Interest Income Recognized</b>
<b>As of or for the twelve months ended December 31, 2011</b>						
Impaired loans with related allowance:						
Home equity lines and loans	\$ 448	\$ 456	\$ 75	\$ 456	\$ 1	\$
Residential mortgage	2,654	2,682	358	2,696	130	
Construction	4,853	6,054	640	6,478	73	
Commercial and industrial	1,568	2,160	248	2,199	32	
<b>Total</b>	<b>9,523</b>	<b>11,352</b>	<b>1,321</b>	<b>11,829</b>	<b>236</b>	
Impaired loans* without related allowance:						
Home equity lines and loans	2,266	2,310		2,316	46	
Residential mortgage	5,492	5,863		5,865	191	
Construction	1,209	1,213		1,326	56	
Commercial and industrial	825	855		1,031	20	
Consumer loans	5	5		6	1	
<b>Total</b>	<b>9,797</b>	<b>10,246</b>		<b>10,544</b>	<b>314</b>	
<b>Grand total</b>	<b>\$ 19,320</b>	<b>\$ 21,598</b>	<b>\$ 1,321</b>	<b>\$ 22,373</b>	<b>\$ 550</b>	<b>\$</b>

\* The table above does not include the recorded investment of \$680 thousand of impaired leases without a related allowance for loan and lease losses.

\*\* Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal.

**Note 6 Other Real Estate Owned**

Other real estate owned consists of properties acquired as a result of deed in-lieu-of foreclosure and foreclosures. Properties or other assets are classified as OREO and are reported at the lower of carrying value or fair value, less estimated costs to sell. Costs relating to the development or improvement of assets are capitalized, and costs relating to holding the property are charged to expense. The five properties comprising the balance as of December 31, 2013 include three residential properties, one commercial property, and an undeveloped parcel of land.

The summary of the change in other real estate owned, which is included as a component of other assets on the Corporation's Consolidated Balance Sheets, is as follows:

<i>(dollars in thousands)</i>	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Balance January 1	\$ 906	\$ 549

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Additions	853	949
Capitalized cost	485	61
Sales	(1,389)	(653)
Balance December 31	\$ 855	\$ 906

**Table of Contents****Note 7 Premises and Equipment****A. A summary of premises and equipment is as follows:**

<i>(dollars in thousands)</i>	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Land	\$ 5,306	\$ 5,306
Buildings	23,557	22,966
Furniture and equipment	23,379	21,598
Leasehold improvements	14,979	13,729
Construction in progress	571	1,925
Less: accumulated depreciation	(35,996)	(34,354)
<b>Total</b>	<b>\$ 31,796</b>	<b>\$ 31,170</b>

Depreciation and amortization expense related to the assets detailed in the above table for the years ended December 31, 2013, 2012, and 2011 amounted to \$3.0 million, \$2.9 million, and \$2.8 million, respectively.

**B. Future minimum cash rent commitments under various operating leases as of December 31, 2013 are as follows:**

<i>(dollars in thousands)</i>	
2014	\$ 3,061
2015	3,107
2016	2,960
2017	2,980
2018	3,030
2019 and thereafter	37,633
<b>Total</b>	<b>\$ 52,771</b>

Rent expense on leased premises and equipment for the years ended December 31, 2013, 2012 and 2011 amounted to \$3.4 million, \$2.7 million, and \$2.2 million, respectively.

**Note 8 Mortgage Servicing Rights ( MSR s)****A. The following summarizes the Corporation s activity related to MSR s for the years ended December 31:**

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Balance, January 1	\$ 4,491	\$ 4,041	\$ 4,925
Additions	1,002	1,579	651
Amortization	(740)	(966)	(749)

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Impairment	(3)	(163)	(786)
Balance, December 31	\$ 4,750	\$ 4,491	\$ 4,041
Fair value	\$ 5,733	\$ 4,638	\$ 4,041
Loans serviced for others	\$ 628,879	\$ 595,317	\$ 574,422

**Table of Contents**

**B. The following summarizes the Corporation's activity related to changes in the impairment valuation allowance of MSR's for the years ended December 31:**

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Balance, January 1	\$ (1,545)	\$ (1,382)	\$ (596)
Impairment	(126)	(278)	(800)
Recovery	123	115	14
Balance, December 31	\$ (1,548)	\$ (1,545)	\$ (1,382)

**C. Other MSR Information** At December 31, 2013, key economic assumptions and the sensitivity of the current fair value of MSR's to immediate 10 and 20 percent adverse changes in those assumptions are as follows:

<i>(dollars in thousands)</i>	
Fair value amount of MSR's	\$ 5,733
Weighted average life (in years)	6.3
Prepayment speeds (constant prepayment rate)*	11.1%
Impact on fair value:	
10% adverse change	\$ (206)
20% adverse change	\$ (402)
Discount rate	10.5%
Impact on fair value:	
10% adverse change	\$ (231)
20% adverse change	\$ (445)

\* Represents the weighted average prepayment rate for the life of the MSR asset.

At December 31, 2013, 2012 and 2011, the fair value of the mortgage MSR's is \$5.7 million, \$4.6 million, and \$4.0 million, respectively. The fair value of the MSR's for these dates was determined using a values obtained from a third party which utilizes a valuation model that calculates the present value of estimated future servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds and discount rates. Mortgage loan prepayment speed is the annual rate at which borrowers are forecasted to repay their mortgage loan principal and is based on historical experience. The discount rate is used to determine the present value of future net servicing income. Another key assumption in the model is the required rate of return the market would expect for an asset with similar risk. Both assumptions can, and generally will, change quarterly valuations as market conditions and interest rates change. Management reviews, annually, the process utilized by its independent third-party valuation experts.

These assumptions and sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSR's is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which could magnify or counteract the sensitivities.



**Table of Contents****Note 9 Deposits****A. The following table details the components of deposits:**

<i>(dollars in thousands)</i>	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
Savings	\$ 135,240	\$ 129,091
NOW accounts*	266,787	270,279
Market rate accounts*	587,247	604,632
Time deposits, less than \$100	88,056	121,994
Time deposits, \$100 or more	52,738	96,592
Wholesale time deposits	34,639	12,421
<b>Total interest-bearing deposits</b>	<b>1,164,707</b>	<b>1,235,009</b>
Non-interest-bearing deposits	426,640	399,673
<b>Total deposits</b>	<b>\$ 1,591,347</b>	<b>\$ 1,634,682</b>

\* *Includes wholesale deposits.*

The aggregate amount of deposit overdrafts included as loans as of December 31, 2013 and 2012 were \$795 thousand and \$603 thousand, respectively.

**B. The following tables detail the maturities of retail time deposits:**

<i>(dollars in thousands)</i>	<b>As of December 31, 2013</b>	
	<b>\$100 or more</b>	<b>Less than \$100</b>
Maturing during:		
2014	\$ 41,622	\$ 61,993
2015	4,818	15,818
2016	1,846	3,381
2017	2,127	3,239
2018	2,325	3,602
2019 and thereafter		23
<b>Total</b>	<b>\$ 52,738</b>	<b>\$ 88,056</b>

**C. The following tables detail the maturities of wholesale time deposits:**

<i>(dollars in thousands)</i>	<b>As of December 31, 2013</b>	
	<b>\$100 or more</b>	<b>Less than \$100</b>

Maturing during:		
2014	\$ 8,303	\$ 191
2015	9,967	
2016	4,983	
2017	11,195	
Total	\$ 34,448	\$ 191

**Note 10 Short-term and Other Borrowings**

**A. Short-term borrowings** As of December 31, 2013 and 2012, the Corporation had \$10.9 million and \$9.4 million of short-term (original maturity of one year or less) borrowings, respectively, which consisted solely of funds obtained from overnight repurchase agreements with commercial customers.



**Table of Contents**

A summary of short-term borrowings is as follows:

<i>(dollars in thousands)</i>	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
Overnight fed funds	\$	\$
Repurchase agreements	10,891	9,403
<b>Total short-term borrowings</b>	<b>\$ 10,891</b>	<b>\$ 9,403</b>

The following table sets forth information concerning short-term borrowings:

<i>(dollars in thousands)</i>	<b>As of or Twelve Months Ended</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Balance at period-end	\$ 10,891	\$ 9,403
Maximum amount outstanding at any month end	75,588	19,029
Average balance outstanding during the period	16,457	13,525
Weighted-average interest rate:		
As of the period-end	0.10%	0.15%
Paid during the period	0.15%	0.16%

Average balances outstanding during the year represent daily average balances and average interest rates represent interest expense divided by the related average balance.

**B. FHLB Advances and Other Borrowings:**

As of December 31, 2013 and 2012, the Corporation had \$205.6 million and \$161.3 million, respectively, of other borrowings, consisting of advances from FHLB and a commercial term loan from a correspondent bank.

The following table presents the remaining periods until maturity of the FHLB advances and other borrowings:

<i>(dollars in thousands)</i>	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
Within one year	\$ 3,917	\$ 35,458
Over one year through five years	196,727	104,244
Over five years through ten years	5,000	21,613
Over ten years		
<b>Total</b>	<b>\$ 205,644</b>	<b>\$ 161,315</b>

The following table presents rate and maturity information on FHLB advances and other borrowings:

Description	Maturity Range*		Weighted Average Rate	Coupon Rate		Balance at December 31,	
	From	To		From	To	2013	2012
Fixed amortizing	04/09/15	04/09/15	3.57%	3.57%	3.57%	\$ 2,102	\$ 4,285
Adjustable amortizing**	12/31/16	12/31/16	3.25%	3.25%	3.25%	7,050	9,400
Bullet maturity fixed rate	03/23/15	05/28/19	1.37%	0.58%	2.41%	140,000	90,000
Bullet maturity variable rate	06/25/15	11/28/17	0.45%	0.38%	0.54%	35,000	15,000
Convertible-fixed	01/03/18	08/20/18	2.95%	2.58%	3.50%	21,492	42,630
Total						\$ 205,644	\$ 161,315

\* Maturity range refers to December 31, 2013 balances

\*\* Loans from correspondent banks other than FHLB

**Table of Contents**

Included in the table above as of December 31, 2013 and 2012 are \$21.5 million and \$42.6 million, respectively, of FHLB advances whereby the FHLB has the option, at predetermined times, to convert the fixed interest rate to an adjustable interest rate indexed to the London Interbank Offered Rate ( LIBOR ). The Corporation has the option to prepay these advances, without penalty, if the FHLB elects to convert the interest rate to an adjustable rate. As of December 31, 2013, substantially all the FHLB advances with this convertible feature are subject to conversion in fiscal 2014. These advances are included in the periods in which they mature, rather than the period in which they are subject to conversion.

**C. Other FHLB Information** The Corporation had a maximum borrowing capacity ( MBC ) with the FHLB of \$841.5 million as of December 31, 2013 of which the unused capacity was \$628.4 million at December 31, 2013. In addition there were \$64.0 million in overnight federal funds line and \$73.3 million of Federal Reserve Discount Window capacity. In connection with its FHLB borrowings, the Corporation is required to hold the capital stock of the FHLB. The amount of capital stock held was \$11.7 million at December 31, 2013, and \$10.8 million at December 31, 2012. The carrying amount of the FHLB stock approximates its redemption value.

The level of required investment in FHLB stock is based on the balance of outstanding loans the Corporation has from the FHLB. Although FHLB stock is a financial instrument that represents an equity interest in the FHLB, it does not have a readily determinable fair value. FHLB stock is generally viewed as a long-term investment. Accordingly, when evaluating FHLB stock for impairment, its value should be determined based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

**Note 11 Derivatives and Hedging Activities**

In December, 2012, the Corporation entered into a forward-starting interest rate swap to hedge the cash flows of a \$15 million floating-rate FHLB borrowing. The interest rate swap involves the exchange of the Corporation's floating rate interest payments on the underlying principal amount. This swap was designated, and qualified, for cash-flow hedge accounting. The term of the swap begins November 30, 2015 and ends November 28, 2022. For derivative instruments that are designated and qualify as hedging instruments, the effective portion of gains or losses is reported as a component of other comprehensive income, and is subsequently reclassified into earnings as an adjustment to interest expense in the periods in which the hedged forecasted transaction affects earnings.

The following table details the Corporation's derivative positions as of the balance sheet dates indicated:

As of December 31, 2013:

(dollars in thousands)

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Projected Receive Rate	Pay Fixed Swap Rate	Fair Value of Asset (Liability)
\$15,000	12/13/2012	11/30/2015	11/28/2022	US 3-Month LIBOR	3.597%	2.376%	\$ 1,142

As of December 31, 2012:

(dollars in  
thousands)

Notional Amount	Trade Date	Effective Date	Maturity Date	Receive (Variable) Index	Current Projected Receive Rate	Pay Fixed Swap Rate	Fair Value of Asset (Liability)
\$15,000	12/13/2012	11/30/2015	11/28/2022	US 3-Month LIBOR	2.338%	2.376%	\$ (36)

For the twelve month periods ended December 31, 2013, 2012 and 2011, there have been no reclassifications of the interest-rate swap's fair value from other comprehensive income to earnings.

## **Table of Contents**

### **Note 12 Disclosure about Fair Value of Financial Instruments**

FASB ASC 825, Disclosures about Fair Value of Financial Instruments requires disclosure of the fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate such value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other market value techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The aggregate fair value amounts presented below do not represent the underlying value of the Corporation.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

#### **Cash and Cash Equivalents**

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate their fair values.

#### **Investment Securities**

Estimated fair values for investment securities are generally valued by an independent third party based on market data, utilizing pricing models that vary by asset and incorporate available trade, bid and other market information. Management reviews, annually, the process utilized by its independent third-party valuation experts. On a quarterly basis, Management tests the validity of the prices provided by the third party by selecting a representative sample of the portfolio and obtaining actual trade results, or if actual trade results are not available, competitive broker pricing. See Note 4 of the Notes to Consolidated Financial Statements for more information.

#### **Loans Held for Sale**

The fair value of loans held for sale is based on pricing obtained from secondary markets.

#### **Net Portfolio Loans and Leases**

For variable rate loans that reprice frequently and which have no significant change in credit risk, estimated fair values are based on carrying values. Fair values of certain mortgage loans and consumer loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality and is indicative of an entry price. The estimated fair value of nonperforming loans is based on discounted estimated cash flows as determined by the internal loan review of the Bank or the appraised market value of the underlying collateral, as determined by independent third party appraisers. This technique does not reflect an exit price.

#### **Impaired Loans**

The Corporation evaluates and values impaired loans at the time the loan is identified as impaired, and the fair values of such loans are estimated using Level 3 inputs in the fair value hierarchy. Each loan's collateral has a unique appraisal and management's discount of the value is based on the factors unique to each impaired loan. The significant unobservable input in determining the fair value is management's subjective discount on appraisals of the collateral securing the loan, which range from 10% - 50%. Collateral may consist of real estate and/or business assets including

equipment, inventory and/or accounts receivable and the value of these assets is determined based on the appraisals by qualified licensed appraisers hired by the Corporation. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management's expertise and knowledge of the client and the client's business.

## **Table of Contents**

### **Other Real Estate Owned**

Other real estate owned consists of properties acquired as a result of foreclosures and deeds in-lieu-of foreclosure. Properties are classified as OREO and are reported at the lower of cost or fair value less cost to sell, and are classified as Level 3 in the fair value hierarchy.

### **Mortgage Servicing Rights**

The fair value of the MSR for these periods was determined using a proprietary third-party valuation model that calculates the present value of estimated future servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds and discount rates. Due to the proprietary nature of the valuation model used, the Corporation classifies the value of MSR as using Level 3 inputs.

### **Other Assets**

The carrying amount of accrued interest receivable, income taxes receivable and other investments approximates fair value.

### **Deposits**

The estimated fair values disclosed for noninterest-bearing demand deposits, savings, NOW accounts, and Market Rate accounts are, by definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying amounts). Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of expected monthly maturities on the certificate of deposit. FASB Codification 825 defines the fair value of demand deposits as the amount payable on demand as of the reporting date and prohibits adjusting estimated fair value from any value derived from retaining those deposits for an expected future period of time.

### **Short-term borrowings**

The carrying amount of short-term borrowings, which include overnight repurchase agreements approximate their fair value.

### **FHLB Advances and Other Borrowings**

The fair value of FHLB advances and other borrowings, which include a \$7.1 million term loan, is established using a discounted cash flow calculation that applies interest rates currently being offered on mid-term and long term borrowings.

### **Other Liabilities**

The carrying amounts of accrued interest payable and other accrued payables approximate fair value.

### **Off-Balance Sheet Instruments**

Estimated fair values of the Corporation's commitments to extend credit, standby letters of credit and financial guarantees are not included in the table below as their carrying values generally approximate their fair values. These

instruments generate fees that approximate those currently charged to originate similar commitments.



**Table of Contents**

The carrying amount and estimated fair value of the Corporation's financial instruments are as follows:

	Fair Value Hierarchy Level*	As of December 31,			
		2013		2012	
(dollars in thousands)		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>					
Cash and cash equivalents	Level 1	\$ 81,071	\$ 81,071	\$ 175,686	\$ 175,686
Investment securities available for sale	See Note 13	285,808	285,808	316,614	316,614
Investment securities trading	See Note 13	3,437	3,437	1,447	1,447
Loans held for sale	Level 2	1,350	1,350	3,412	3,482
Net portfolio loans and leases	Level 3	1,531,670	1,534,631	1,384,031	1,412,619
Mortgage servicing rights	Level 3	4,750	5,733	4,491	4,638
Other assets	Level 3	21,819	21,819	21,735	21,735
<b>Total financial assets</b>		<b>\$ 1,929,905</b>	<b>\$ 1,933,849</b>	<b>\$ 1,907,416</b>	<b>\$ 1,936,221</b>
<b>Financial liabilities:</b>					
Deposits	Level 2	\$ 1,591,347	\$ 1,591,215	\$ 1,634,682	\$ 1,635,374
Short-term borrowings	Level 2	10,891	10,891	9,403	9,403
FHLB advances and other borrowings	Level 2	205,644	205,149	161,315	164,273
Other liabilities	Level 2	23,885	23,885	26,921	26,921
<b>Total financial liabilities</b>		<b>\$ 1,831,767</b>	<b>\$ 1,831,140</b>	<b>\$ 1,832,321</b>	<b>\$ 1,835,971</b>

\* see Note 13 in the Notes to Consolidated Financial Statements for a description of hierarchy levels

**Note 13 Fair Value Measurement**

FASB ASC 820, Fair Value Measurement establishes a fair value hierarchy based on the nature of data inputs for fair value determinations, under which the Corporation is required to value each asset using assumptions that market participants would utilize to value that asset. When the Corporation uses its own assumptions it is required to disclose additional information about the assumptions used and the effect of the measurement on earnings or the net change in assets for the period.

The value of the Corporation's available for sale investment securities, which include obligations of the U.S. government and its agencies, mortgage-backed securities issued by U.S. government- and U.S. government sponsored agencies, obligations of state and political subdivisions, corporate bonds, other debt securities, as well as bond mutual funds are determined by an independent third party. The Corporation performs tests to assess the validity of these third-party values. The third party's evaluations are based on market data. They utilize pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, their pricing models apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (only obtained from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets,

benchmark securities, bid, offers and reference data. For certain securities, additional inputs may be used or some market inputs may not be applicable. Inputs are prioritized differently on any given day based on market conditions.

U.S. Government agencies are evaluated and priced using multi-dimensional relational models and option adjusted spreads. State and municipal securities are evaluated on a series of matrices including reported trades and material event notices. Mortgage-backed securities are evaluated using matrix correlation to treasury or floating index benchmarks, prepayment speeds, monthly payment information and other benchmarks. Other available-for-sale investments are evaluated using a broker-quote based application, including quotes from issuers.

**Table of Contents**

The value of the investment portfolio is determined using three broad levels of inputs:

**Level 1** Quoted prices in active markets for identical securities.

**Level 2** Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active and model derived valuations whose inputs are observable or whose significant value drivers are observable.

**Level 3** Instruments whose significant value drivers are unobservable.

These levels are not necessarily an indication of the risks or liquidity associated with these investments. The following tables summarize the assets at December 31, 2013 and 2012 that are recognized on the Corporation's balance sheet using fair value measurement determined based on the differing levels of input.

Fair value of assets measured on a recurring basis for the year ended December 31, 2013:

<i>(dollars in millions)</i>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investment securities (available for sale and trading):				
Obligations of U.S. government & agencies	\$ 69.6	\$	\$ 69.6	\$
Obligations of state & political subdivisions	37.0		37.0	
Mortgage-backed securities	119.4		119.4	
Collateralized mortgage obligations	44.2		44.2	
Mutual funds	14.9	14.9		
Other debt securities	4.1		4.1	
Total assets measured on a recurring basis at fair value	\$ 289.2	\$ 14.9	\$ 274.3	\$ 0

Fair value of assets measured on a non-recurring basis at December 31, 2013:

<i>(dollars in millions)</i>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Mortgage servicing rights	\$ 0.2	\$	\$	\$ 0.2
Impaired loans and leases	16.1			16.1
OREO and other repossessed property	0.9			0.9
Total assets measured at fair value on a non-recurring basis	\$ 17.2	\$	\$	\$ 17.2

Fair value of assets measured on a recurring basis for the year ended December 31, 2012:

<i>(dollars in millions)</i>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investment securities (available for sale and trading):				
Obligations of U.S. government & agencies	\$ 73.9	\$	\$ 73.9	\$

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Obligations of state & political subdivisions	30.4		30.4	
Mortgage-backed securities	131.8		131.8	
Collateralized mortgage obligations	62.7		62.7	
Mutual funds	15.0	15.0		
Investment certificates of deposit	2.3		2.3	
Other debt securities	1.9		1.9	
Total assets measured on a recurring basis at fair value	\$ 318.0	\$ 15.0	\$ 303.0	\$ 0

**Table of Contents**

Fair value of assets measured on a non-recurring basis at December 31, 2012:

<i>(dollars in millions)</i>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Mortgage servicing rights	\$ 0.9	\$	\$	\$ 0.9
Impaired loans and leases	19.7			19.7
OREO and other repossessed property	0.9			0.9
Total assets measured at fair value on a non-recurring basis	\$ 21.5	\$	\$	\$ 21.5

During the twelve months ended December 31, 2013 and 2012, a net increase of \$218 thousand and \$975 thousand, respectively, in the Allowance was recorded as a result of adjusting the carrying value and estimated fair value of the impaired loans in the above tables. As it relates to the fair values of assets measured on a recurring basis, there have been no transfers between levels during the twelve months ended December 31, 2013.

**Note 14 401(K) Plan and Other Defined Contribution Plans**

The Corporation has a qualified defined contribution plan (the 401(K) Plan ) for all eligible employees, under which the Corporation contributes \$1.00 for each \$1.00 that an employee contributes up to a maximum of 3.0% of the employee's base salary. The Corporation's expenses for the 401(K) Plan were \$803 thousand, \$747 thousand and \$618 thousand in 2013, 2012 and 2011, respectively.

In addition to the matching contribution above, the Corporation provides a discretionary, non-matching employer contribution to the 401(K) Plan. The Corporation's expense for the non-matching discretionary contribution was \$1.0 million, \$879 thousand and \$652 thousand, for the twelve months ended December 31, 2013, 2012 and 2011, respectively.

On June 28, 2013, the Corporation adopted the Bryn Mawr Bank Corporation Executive Deferred Compensation Plan (the EDCP ), a non-qualified defined-contribution plan which was restricted to certain senior officers of the Corporation. The intended purpose of the EDCP is to provide deferred compensation to a select group of employees. The Corporation's expense for the EDCP, for the twelve months ended December 31, 2013 was \$221 thousand.

**Note 15 Pension and Postretirement Benefit Plans**

**A. General Overview** The Corporation has three defined-benefit pension plans comprised of a qualified defined benefit plan (the QDBP ) which covers all employees over age 20 1/2 who meet certain service requirements, and two non-qualified defined-benefit supplemental executive retirement plans ( SERP I and SERP II ) which are restricted to certain senior officers of the Corporation.

SERP I provides each participant with the equivalent pension benefit provided by the QDBP on any compensation and bonus deferrals that exceed the IRS limit applicable to the QDBP.

On February 12, 2008, the Corporation amended the QDBP and SERP I to freeze further increases in the defined benefit amounts to all participants, effective March 31, 2008.

On April 1, 2008, the Corporation added SERP II, a non-qualified defined benefit plan which was restricted to certain senior officers of the Corporation. Effective March 31, 2013, the Corporation has curtailed SERP II, as further increases to the defined benefit amounts to over 20% of the participants have been frozen.

The Corporation also has a postretirement benefit plan ( PRBP ) that covers certain retired employees and a group of current employees. The PRBP was closed to new participants in 1994. In 2007, the Corporation amended the PRBP to allow for settlement of obligations to certain current and retired employees. Certain retired participant obligations were settled in 2007 and current employee obligations were settled in 2008.

**Table of Contents**

The following table provides information with respect to our QDBP, SERP, and PRBP, including benefit obligations and funded status, net periodic pension costs, plan assets, cash flows, amortization information and other accounting items.

**B. Actuarial Assumptions used to determine benefit obligations as of December 31 of the years indicated:**

	QDBP		SERP I and SERP II		PRBP	
	2013	2012	2013	2012	2013	2012
	Discount rate	4.60%	3.70%	4.60%	3.70%	4.60%
Rate of increase for future compensation	N/A	N/A	3.50%	3.50%	N/A	N/A
Expected long-term rate of return on plan assets	7.50%	7.50%	N/A	N/A	N/A	N/A

**C. Changes in Benefit Obligations and Plan Assets:**

	QDBP		SERP I & SERP II		PRBP	
	2013	2012	2013	2012	2013	2012
<i>(dollars in thousands)</i>						
<b>Change in benefit obligations</b>						
Benefit obligation at January 1	\$ 40,825	\$ 38,056	\$ 6,693	\$ 5,862	\$ 842	\$ 913
Service cost			71	243		
Interest cost	1,484	1,576	188	243	29	36
Plan participants contribution					38	49
Actuarial (gain) loss	(4,145)	2,973	10	491	(65)	36
Curtailements			(2,808)			
Benefits paid	(1,798)	(1,780)	(146)	(146)	(156)	(192)
Benefit obligation at December 31	\$ 36,366	\$ 40,825	\$ 4,008	\$ 6,693	\$ 688	\$ 842
<b>Change in plan assets</b>						
Fair value of plan assets at January 1	\$ 40,666	\$ 38,295	\$	\$	\$	\$
Actual return on plan assets	6,705	4,151				
Employer contribution			146	146	118	143
Plan participants contribution					38	49
Benefits paid	(1,798)	(1,780)	(146)	(146)	(156)	(192)
Fair value of plan assets at December 31	\$ 45,573	\$ 40,666	\$	\$	\$	\$
<b>Funded status at year end (plan assets less benefit obligations)</b>	\$ 9,207	\$ (159)	\$ (4,008)	\$ (6,693)	\$ (688)	\$ (842)

Amounts included in the consolidated balance sheet as other assets (liabilities) and accumulated other comprehensive income including the following:

**For the Twelve Months Ended December 31,**

	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Prepaid benefit cost/(accrued liability)	\$ 16,346	\$ 16,573	\$ (3,201)	\$ (3,669)	\$ (250)	\$ (263)
Net actuarial loss	(7,139)	(16,732)	(790)	(2,169)	(438)	(579)
Prior service cost			(17)	(855)		
Unrecognized net initial obligation						
Net amount recognized	\$ 9,207	\$ (159)	\$ (4,008)	\$ (6,693)	\$ (688)	\$ (842)



**Table of Contents**

D. The following tables provide the components of net periodic pension costs for the periods indicated:

<b>QDBP Net Periodic Pension Cost</b> <i>(dollars in thousands)</i>	<b>For the Twelve Months Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Service cost	\$	\$	\$
Interest cost	1,484	1,576	1,708
Expected return on plan assets	(2,981)	(2,804)	(2,214)
Amortization of prior service cost			
Recognition of net actuarial loss	1,724	1,786	899
Curtailment			
<b>Net periodic pension cost</b>	<b>\$ 227</b>	<b>\$ 558</b>	<b>\$ 393</b>

<b>SERP I and SERP II Periodic Pension Cost</b> <i>(dollars in thousands)</i>	<b>For the Twelve Months Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Service cost	\$ 71	\$ 243	\$ 230
Interest cost	188	243	248
Gain on curtailment	(690)		
Amortization of prior service cost	31	82	82
Recognition of net actuarial loss	78	86	49
<b>Net periodic pension (benefit) cost</b>	<b>\$ (322)</b>	<b>\$ 654</b>	<b>\$ 609</b>

<b>PRBP Net Periodic Pension Cost</b> <i>(dollars in thousands)</i>	<b>For the Twelve Months Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Service cost	\$	\$	\$
Interest cost	29	36	48
Settlement			
Amortization of transition obligation		26	26
Amortization of prior service cost			(55)
Recognition of net actuarial loss	76	79	77
<b>Net periodic pension cost</b>	<b>\$ 105</b>	<b>\$ 141</b>	<b>\$ 96</b>

<b>Discount Rate Used in the Calculation of Periodic Pension Costs</b>	<b>For the Twelve Months Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	3.70%	4.20%	5.30%

**E. Plan Assets:**

The information in this section pertains to the assets of the QDBP. The PRBP, SERP I and SERP II are unfunded plans and, as such, have no related plan assets.

**Table of Contents**

The following table details the asset allocation and the QDBP's policy asset allocation range as of the dates indicated

Asset Category	2013 Plan Policy Asset Allocation Range**	2012 Plan Policy Asset Allocation Range**	Percentage of QDBP Plan Assets as of December 31,	
			2013	2012
Equity securities*	50% to 65%	50% to 65%	63%	61%
Fixed-income investments	10% to 30%	10% to 30%	14%	19%
Alternative investments	0% to 30%	0% to 30%	20%	14%
Cash reserves**	1% to 5%	1% to 5%	3%	6%
Total			100%	100%

\* Includes Bryn Mawr Bank Corporation common stock in the amount of \$951 thousand, or 2.1%, and \$702 thousand, or 1.7%, at December 31, 2013 and 2012, respectively.

\*\* Asset categories that fall outside the asset allocation range (policy) are outside the range on a short-term basis and is often related to the timing of plan funding and subsequent investment. Reallocation is done regularly in order to adhere to the plan's asset allocation policy

The expected rate of return on plan assets in the QDBP was selected by the Corporation after consultation with its actuary, and is based in part on long term historical rates of return and various actuarial assumptions. The discount rate was also selected by the Corporation after consultation with its actuary, and is based in part upon the current yield of a portfolio of long term investment grade securities.

The investment strategy of the QDBP is to maintain the investment ranges listed above. The target ranges are to be periodically reviewed based on the prevailing market conditions. Any modification to the current investment strategy must be ratified by the Wealth Management Committee of the Corporation's Board of Directors. The QDBP is allowed to retain approximately 2.5% of Bryn Mawr Bank Corporation common stock.

The Corporation's overall investment strategy is to achieve a mix of approximately 60% investments for long-term growth and 40% for production of current income. The target allocations for the QDBP are 60% equity securities comprised of a number of mutual funds managed with differing objectives and styles. The plan also holds shares of the Corporation's common stock. Fixed income obligations include corporate obligations, U.S. Treasury and Agency securities, along with fixed income mutual funds.

In addition, the QDBP invests in alternative investments whose definition is quite broad. Examples of strategies that may be deployed include: long/short, global macro, managed futures, event driven, tactical absolute return, master limited partnerships, REITs, etc. The allocation to alternative investments may be achieved through liquid strategies, such as separate accounts or mutual funds or through hedge funds. Hedge funds are carried at fair value as determined by the fund manager in good faith. In establishing the fair value of hedge funds, the fund manager takes into consideration information received from the investment administrators, including their financial statements and the fair value established by the fund manager of each respective investment.

The following tables summarize the fair value of the assets of the QDBP as of the dates indicated. The fair values were determined by using three broad levels of inputs. See Note 13 for description of these input levels.

**Table of Contents**

The fair value of the QDBP assets measured on a recurring basis as of December 31, 2013:

<i>(dollars in thousands)</i>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and cash equivalents	\$ 1,218	\$ 1,218	\$	\$
Alternative investments*	9,196	5,747	3,449	
Common stocks	2,698	2,698		
Equity mutual funds	26,187	26,187		
Bond mutual funds	6,274	6,274		
Total assets measured on a recurring basis at fair value	\$ 45,573	\$ 42,124	\$ 3,449	\$

\* *Alternative investments include exchange-traded products which are considered Level 1 and hedge fund investments which are considered Level 2.*

The fair value of the QDBP assets measured on a recurring basis as of December 31, 2012:

<i>(dollars in thousands)</i>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and cash equivalents	\$ 2,576	\$ 2,576	\$	\$
Alternative investments*	5,664	2,269	3,395	
Common stocks	703	703		
Equity mutual funds	23,950	23,950		
Bond mutual funds	7,773	7,773		
Total assets measured on a recurring basis at fair value	\$ 40,666	\$ 37,271	\$ 3,395	\$

**F. Cash Flows**

The following benefit payments, which reflect expected future services, are expected to be paid over the next ten years:

<i>(dollars in thousands)</i>	<b>QDBP</b>	<b>SERP I &amp; SERP II</b>	<b>PRBP</b>
Fiscal year ending			
2014	\$ 1,863	\$ 146	\$ 117
2015	\$ 1,948	\$ 260	\$ 106
2016	\$ 1,976	\$ 258	\$ 95
2017	\$ 1,975	\$ 255	\$ 84
2018	\$ 2,029	\$ 252	\$ 74
2019-2022	\$ 10,846	\$ 1,340	\$ 240

**G. Other Pension and Post Retirement Benefit Information**

In 2005, the Corporation placed a cap on the future annual benefit payable through the PRBP. This cap is equal to 120% of the 2005 annual benefit.

**H. Expected Contribution to be Paid in the Next Fiscal Year**

Based on the status of the Corporation's QDBP at December 31, 2013, no minimum funding requirement is anticipated for 2014. The 2014 expected contribution for the SERP is \$146 thousand.

**I. Actuarial Losses**

As indicated in section C of this footnote, the Corporation's pension plans had cumulative actuarial losses as of December 31, 2013 that will result in an increase in the Corporation's future pension expense because such losses at each measurement date exceed 10% of the greater of the projected benefit obligation or the market-

**Table of Contents**

related value of the plan assets. In accordance with GAAP, net unrecognized gains or losses that exceed that threshold are required to be amortized over the expected service period of active employees, and are included as a component of net pension cost. Amortization of these net actuarial losses has the effect of increasing the Corporation's pension costs as shown on the table in section D of this footnote.

**Note 16 Accumulated Other Comprehensive Loss**

The following table details the components of accumulated other comprehensive (loss) income for the twelve months ended December 31, 2013, 2012 and 2011:

<i>(dollars in thousands)</i>	Net Change in Unrealized Gains on Available-for- Sale Investment Securities	Net Change in Fair Value of Derivative Used for Cash Flow Hedge	Net Change in Unfunded Pension Liability	Accumulated Other Comprehensive Loss
Balance, December 31, 2010	\$ 1,054	\$	\$ (7,811)	\$ (6,757)
Net change	738		(5,346)	(4,608)
Balance, December 31, 2011	\$ 1,792	\$	\$ (13,157)	\$ (11,365)
Balance, December 31, 2011	\$ 1,792	\$	\$ (13,157)	\$ (11,365)
Net change	1,372	(23)	(62)	1,287
Balance, December 31, 2012	\$ 3,164	\$ (23)	\$ (13,219)	\$ (10,078)
Balance, December 31, 2012	\$ 3,164	\$ (23)	\$ (13,219)	\$ (10,078)
Net change	(4,021)	766	7,768	4,513
Balance, December 31, 2013	\$ (857)	\$ 743	\$ (5,451)	\$ (5,565)

The following tables detail the amounts reclassified from each component of accumulated other comprehensive loss for the twelve month periods ended December 31, 2013, 2012 and 2011:

**Amount Reclassified from Accumulated Other****Comprehensive Loss**

Description of Accumulated Other Comprehensive Loss Component	For The Twelve Months Ended December 31,			Affected Income Statement Category
	2013	2012	2011	
<i>Net unrealized gain on investment securities available for sale:</i>	\$ (8)	\$ 1,415	\$ 1,783	

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Realization of loss (gain) on sale of investment securities available for sale				Net (loss) gain on sale of available for sale investment securities
	3	(495)	(624)	Less: income tax benefit (expense)
	\$ (5)	\$ 920	\$ 1,159	Net of income tax
<b><i>Unfunded pension liability:</i></b>				
Amortization of net loss included in net periodic pension costs*	\$ 1,878	\$ 1,951	\$ 1,025	Employee benefits
Amortization of prior service cost included in net periodic pension costs*	31	82	27	Employee benefits
Amortization of transition obligation included in net periodic pension costs*		26	26	Employee benefits
Gain on curtailment of SERP II	(690)			Net gain on curtailment of nonqualified pension plan
	1,219	2,059	1,078	Total expense before income tax benefit
	427	721	377	Less: income tax benefit
	\$ 792	\$ 1,338	\$ 701	Net of income tax

\* Accumulated other comprehensive loss components are included in the computation of net periodic pension cost. See Note 15 Pension and Other Post-Retirement Benefit Plans



**Table of Contents****Note 17 Income Taxes****A. Components of Net Deferred Tax Asset:**

<i>(dollars in thousands)</i>	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Deferred tax assets:		
Loan and lease loss reserve	\$ 6,124	\$ 6,010
Other reserves	1,190	1,506
Net operating loss carry-forward	1,841	2,187
Alternative minimum tax credits	567	568
Amortizing fair value adjustments, FKF merger	2,367	2,778
Unrealized depreciation of available for sale securities	462	
Defined benefit plans	4,142	8,494
<b>Total deferred tax asset</b>	<b>16,693</b>	<b>21,543</b>
Deferred tax liabilities:		
Other reserves	(219)	(165)
QDBP	(5,721)	(5,800)
Originated MSR	(1,663)	(1,572)
Unrealized appreciation of derivative used for cash flow hedge	(400)	
Unrealized appreciation of available for sale securities		(1,703)
<b>Total deferred tax liability</b>	<b>(8,003)</b>	<b>(9,240)</b>
<b>Total net deferred tax asset</b>	<b>\$ 8,690</b>	<b>\$ 12,303</b>

Not included in the table above is an \$86 thousand deferred tax asset for state taxes related to net operating losses of our leasing subsidiary as of December 31, 2013, for which we have recorded a 100% valuation allowance. In connection with the May 15, 2012 acquisition of DTC, the Corporation recorded a net deferred tax liability of \$1.3 million.

**B. The provision (benefit) for income taxes consists of the following:**

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Current	\$ 11,391	\$ 11,575	\$ 6,231
Deferred	1,195	(505)	3,310
<b>Total</b>	<b>\$ 12,586</b>	<b>\$ 11,070</b>	<b>\$ 9,541</b>

**C. Applicable income taxes differed from the amount derived by applying the statutory federal tax rate to income as follows:**

<i>(dollars in thousands)</i>	<b>2013</b>	<b>Tax Rate</b>	<b>2012</b>	<b>Tax Rate</b>	<b>2011</b>	<b>Tax Rate</b>
Computed tax expense at statutory federal rate	\$ 12,960	35.0%	\$ 11,276	35.0%	\$ 10,200	35.0%
Tax-exempt income	(414)	(1.1)%	(382)	(1.2)%	(395)	(1.4)%
Other, net	40	0.1%	176	0.5%	(264)	(0.9)%
Total income tax expense	\$ 12,586	34.0%	\$ 11,070	34.3%	\$ 9,541	32.7%

---

**Table of Contents**

**D. Other Income Tax Information**

In accordance with the provisions of ASC 740, *Accounting for Uncertainty in Income Taxes*, the Corporation recognizes the financial statement benefit of a tax position only after determining that the Corporation would more likely than not sustain the position following an examination. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon settlement with the relevant tax authority. The Corporation applied these criteria to tax positions for which the statute of limitations remained open.

There were no reserves for uncertain tax positions recorded during the twelve months ended December 31, 2013, 2012 or 2011.

The Corporation is subject to income taxes in the U.S. federal jurisdiction, and in multiple state jurisdictions. The Corporation is no longer subject to U.S. federal income tax examination by tax authorities for the years before 2010.

The Corporation's policy is to record interest and penalties on uncertain tax positions as income tax expense. No interest or penalties were accrued in 2013.

As of December 31, 2013, the Corporation has net operating loss carry-forwards for federal income tax purposes of \$5.3 million, related to the FKF merger, which are available to offset future federal taxable income through 2030. In addition, the Corporation has alternative minimum tax credits of \$567 thousand, which are available to reduce future federal regular income taxes over an indefinite period. The Corporation has determined that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax asset related to these amounts.

As a result of the July 1, 2010 merger with FKF, the Corporation succeeded to certain tax bad debt reserves that existed at FKF as of June 30, 2010. As of December 31, 2013, the Corporation had unrecognized deferred income taxes of \$563 thousand with respect to these reserves. These reserves could be recognized as taxable income and create a current and/or deferred tax liability at the income tax rates then in effect if one of the following conditions occurs: (1) the Bank's retained earnings represented by this reserve are used for distributions, in liquidation, or for any other purpose other than to absorb losses from bad debts; (2) the Bank fails to qualify as a bank, as provided by the Internal Revenue Code; or (3) there is a change in federal tax law.

**Note 18 Stock Based Compensation**

**A. General Information**

The Corporation permits the issuance of stock options, dividend equivalents, performance stock awards, stock appreciation rights and restricted stock awards to employees and directors of the Corporation under several plans. The performance awards and restricted awards may be in the form of stock awards or stock units. The only difference between a stock award and a stock unit is that for a stock award, shares of restricted stock are issued in the name of the grantee, whereas a stock unit constitutes a promise to issue shares of stock upon vesting. The accounting for awards and units is identical. The terms and conditions of awards under the plans are determined by the Corporation's Compensation Committee.

Prior to April 25, 2007, all shares authorized for grant as stock-based compensation were limited to grants of stock options. On April 25, 2007, the shareholders approved the Corporation's 2007 Long-Term Incentive Plan (the 2007 LTIP) under which a total of 428,996 shares of the Corporation's common stock were made available for award grants.

On April 28, 2010, the shareholders approved the Corporation's 2010 Long Term Incentive Plan (the 2010 LTIP ) under which a total of 445,002 shares of the Corporation's common stock were made available for award grants.

The equity awards granted under the 2007 and 2010 LTIPs were authorized to be in the form of, among others, options to purchase the Corporation's common stock, restricted stock awards or units ( RSA s or RSU s) and performance stock awards or units ( PSA s or PSU s).

**Table of Contents**

RSAs and RSUs have a restriction based on the passage of time and may also have a restriction based on a non-market-related performance criteria. The fair value of the RSAs and RSUs is based on the closing price on the day preceding the date of the grant.

The PSAs and PSUs also have a restriction based on the passage of time, but also have a restriction based on performance criteria related to the Corporation's total shareholder return relative to the performance of the community bank index for the respective period. The amount of PSAs or PSUs earned will not exceed 100% of the PSAs or PSUs awarded. The fair value of the PSAs and PSUs is calculated using the Monte Carlo Simulation method.

In connection with the July 2010 FKF merger, 21,133 fully vested options which had been granted to former FKF employees were assumed by the Corporation.

The following table summarizes the remaining shares authorized to be granted for options, RSAs and PSAs:

	<b>Shares Authorized for Grant</b>
<b>Balance, December 31, 2010</b>	425,884
RSAs granted four year cliff-vesting	(15,648)
RSAs granted three year cliff-vesting	(14,093)
PSAs granted three year cliff-vesting	(60,238)
Unexercised options expired	19,330
Unexercised options cancelled	19,464
PSAs forfeited	2,797
<b>Balance, December 31, 2011</b>	377,496
RSAs granted three year cliff-vesting	(31,948)
PSAs granted three year cliff-vesting	(73,217)
Unexercised options expired	9,883
Unexercised options cancelled	5,755
PSAs forfeited	4,812
<b>Balance, December 31, 2012</b>	292,781
RSAs or RSUs granted three year cliff-vesting	(6,665)
PSAs or PSUs granted three year cliff-vesting	(75,367)
Unexercised options expired	250
Unexercised options cancelled	650
RSAs or RSUs forfeited	3,681
PSAs or PSUs forfeited	1,575
<b>Balance, December 31, 2013</b>	216,905

**B. Fair Value of Options Granted**

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants issued during:

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Expected dividend yield	2.6%	N/A	N/A
Expected volatility of Corporation's stock	24.0%	N/A	N/A
Risk-free interest rate	3.7%	N/A	N/A
Expected life in years	7.0	N/A	N/A
Weighted average fair value of options granted	\$ 4.83	N/A	N/A

**Table of Contents**

The expected dividend yield is based on the company's annual dividend amount as a percentage of the average stock price at the time of the grant. Expected life is equal to the mid-point of the average time to vest and the contractual term. Expected volatility of the Corporation's stock is based on the historic volatility of the Corporation's stock price. The risk-free interest rate is based on the zero-coupon U.S. Treasury interest rate ranging from one month to ten years and a period commensurate with the expected life of the option.

**C. Other Stock Option Information** The following table provides information about options outstanding:

	For the Twelve Months Ended December 31,								
	2013			2012			2011		
	Shares	Weighted Average Grant Date		Shares	Weighted Average Grant Date		Shares	Weighted Average Grant Date	
Exercise Price		Fair Value	Exercise Price		Fair Value	Exercise Price		Fair Value	
Options outstanding, beginning of period	783,476	\$ 20.40	\$ 4.62	876,470	\$ 20.17	\$ 4.49	993,710	\$ 19.82	\$ 4.44
Granted	12,225	\$ 21.28	\$ 4.83						
Forfeited	(650)	\$ 19.65	\$ 4.62	(5,755)	\$ 20.56	\$ 4.74	(16,320)	\$ 20.94	\$ 4.79
Expired	(250)	\$ 22.00	\$ 4.90	(9,883)	\$ 21.93	\$ 5.01	(32,330)	\$ 21.87	\$ 5.04
Exercised	(203,715)	\$ 19.49	\$ 4.39	(77,356)	\$ 17.60	\$ 3.69	(68,590)	\$ 14.08	\$ 2.79
Options outstanding, end of period	591,086	\$ 20.73	\$ 4.70	783,476	\$ 20.40	\$ 4.62	876,470	\$ 20.17	\$ 4.49

The following table provides information related to options as of December 31, 2013:

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Options Outstanding	Remaining Contractual Life	Shares Exercisable	Remaining Contractual Life	Weighted Average Exercise Price*
\$10.36 to \$18.59	140,277	5.24 yrs	110,131	5.24 yrs	\$ 18.09
\$18.60 to \$19.69	111,000	1.35 yrs	111,000	1.35 yrs	\$ 18.91
\$19.70 to \$21.48	121,300	1.51 yrs	121,300	1.51 yrs	\$ 21.05
\$21.49 to \$22.03	101,745	3.42 yrs	101,745	3.42 yrs	\$ 21.99
\$22.04 to \$23.97	9,000	2.26 yrs	9,000	2.26 yrs	\$ 23.00
\$23.98 to \$24.27	107,764	4.27 yrs	107,764	4.27 yrs	\$ 24.27
	591,086	3.21 yrs	560,940	3.10 yrs	\$ 20.87

\* *price of exercisable options*

The following table provides information about unvested options:

	For the Twelve Months Ended December 31,					
	2013		2012		2011	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested options, beginning of period	80,756	\$ 4.65	158,515	\$ 4.73	249,574	\$ 4.76
Granted	12,225	\$ 4.83				
Vested	(62,185)	\$ 4.80	(72,004)	\$ 4.82	(74,739)	\$ 4.82
Forfeited	(650)	\$ 4.62	(5,755)	\$ 4.74	(16,320)	\$ 4.79
Unvested options, end of period	30,146	\$ 4.42	80,756	\$ 4.65	158,515	\$ 4.73



**Table of Contents**

Proceeds, related tax benefits realized from options exercised and intrinsic value of options exercised were as follows:

<i>(dollars in thousands)</i>	<b>For the Twelve Months Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Proceeds from strike price of value of options exercised	\$ 3,970	\$ 1,362	\$ 966
Related tax benefit recognized	376	100	141
Proceeds of options exercised	\$ 4,346	\$ 1,462	\$ 1,107
Intrinsic value of options exercised	\$ 1,215	\$ 269	\$ 444

The following table provides information about options outstanding and exercisable options:

	<b>2013</b>		<b>As of December 31, 2012</b>		<b>2012</b>	
	<b>Options Outstanding</b>	<b>Exercisable Options</b>	<b>Options Outstanding</b>	<b>Exercisable Options</b>	<b>Options Outstanding</b>	<b>Exercisable Options</b>
Number	591,086	560,940	783,476	702,720	876,470	717,955
Weighted average exercise price	\$ 20.73	\$ 20.87	\$ 20.40	\$ 20.46	\$ 20.17	\$ 20.10
Aggregate intrinsic value	\$ 5,583,266	\$ 5,224,227	\$ 1,691,778	\$ 1,455,766	\$ 549,495	\$ 437,549
Weighted average contractual term	3.2 yrs	3.1 yrs	3.6 yrs	3.3 yrs	4.3 yrs	3.7 yrs

For the twelve months ended December 31, 2013, the Corporation recognized \$179 thousand of expense related to stock options. As of December 31, 2013, the unamortized stock based compensation expense on stock options was \$64 thousand which will be recognized over the next 8 months.

**D. Restricted Stock and Performance Stock Awards and Units**

The Corporation has granted RSAs, PSAs and PSUs under the 2007 LTIP and 2010 LTIP.

**RSAs**

The compensation expense for the RSAs is measured based on the market price of the stock on the day prior to the grant date and is recognized on a straight line basis over the vesting period.

For the twelve months ended December 31, 2013, the Corporation recognized \$322 thousand of expense related to the Corporation's RSAs. As of December 31, 2013, there was \$475 thousand of unrecognized compensation cost related to RSAs. This cost will be recognized over a weighted average period of 1.7 years.

The following table details the RSAs for the twelve month periods ended December 31, 2013, 2012 and 2011:

	Twelve Months Ended December 31, 2013		Twelve Months Ended December 31, 2012		Twelve Months Ended December 31, 2011	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Beginning balance	60,287	\$ 19.05	38,681	\$ 18.06	11,920	\$ 16.78
Granted	6,665	\$ 22.50	31,948	\$ 20.41	29,741	\$ 18.37
Vested	(9,115)	\$ 19.20	(10,342)	\$ 19.34	(2,980)	\$ 16.78
Forfeited	(3,681)	\$ 20.38				
Ending balance	54,156	\$ 19.36	60,287	\$ 19.05	38,681	\$ 18.01

**Table of Contents****PSAs and PSUs**

The compensation expense for PSAs and PSUs is measured based on their grant date fair value as calculated using the Monte Carlo Simulation and is recognized on a straight-line basis over the vesting period. Related to the 75,367 PSAs granted during the twelve months ended December 31, 2013, the Monte Carlo Simulation used various assumptions that include expected volatility of 27.97%, a risk free rate of return of 0.73% and a correlation co-efficient of 0.7479%.

The Corporation recognized \$503 thousand of expense related to the PSAs for the twelve months ended December 31, 2013. As of December 31, 2013, there was \$1.5 million of unrecognized compensation cost related to PSAs. This cost will be recognized over a weighted average period of 2.2 years.

The following table details the PSAs for the twelve month periods ending December 31, 2013, 2012 and 2011:

	Twelve Months Ended December 31, 2013		Twelve Months Ended December 31, 2012		Twelve Months Ended December 31, 2011	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Beginning balance	186,113	\$ 10.62	117,708	\$ 9.86	60,267	\$ 9.64
Granted	75,367	\$ 13.38	73,217	\$ 11.80	60,238	\$ 10.07
Vested	(54,925)	\$ 9.64				
Forfeited	(1,575)	\$ 10.77	(4,812)	\$ 9.88	(2,797)	\$ 9.64
Ending balance	204,980	\$ 11.90	186,113	\$ 10.62	117,708	\$ 9.86

**Note 19 Earnings Per Share**

The calculation of basic earnings per share and diluted earnings per share is presented below:

*(dollars in thousands,*

**Year Ended December 31,**

*except per share data)*

	2013	2012	2011
<b>Numerator</b> Net income available to common shareholders	\$ 24,444	\$ 21,147	\$ 19,602
<b>Denominator for basic earnings per share</b> Weighted average shares outstanding*	13,311,215	13,090,110	12,659,824
Effect of dilutive potential common shares	260,395	151,736	82,313
<b>Denominator for diluted earnings per share</b> Adjusted weighted average shares	13,571,610	13,241,846	12,742,137

outstanding

Basic earnings per share	\$	1.84	\$	1.62	\$	1.55
Diluted earnings per share	\$	1.80	\$	1.60	\$	1.54
Antidilutive shares excluded from computation of average dilutive earnings per share				848,477		941,005

\* *excludes restricted stock*

All weighted average shares, actual shares and per share information in the financial statements have been adjusted retroactively for the effect of stock dividends and splits. See Note 1-Q Summary of Significant Accounting Policies: Earnings Per Common Share for a discussion on the calculation of earnings per share.

**Table of Contents****Note 20 Other Operating Income**

Components of other operating income for the indicated years ended December 31 include:

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Merchant interchange fees	\$ 814	\$ 665	\$ 559
Commissions and fees	578	510	468
Safe deposit box rentals	387	398	407
Insurance commissions	651	444	403
Other investment income	348	349	153
Title insurance income	192	272	119
Rent income	202	162	116
Miscellaneous other income	1,542	1,043	1,181
<b>Other operating income</b>	<b>\$ 4,714</b>	<b>\$ 3,843</b>	<b>\$ 3,406</b>

**Note 21 Other Operating Expense**

Components of other operating expense for the indicated years ended December 31 include:

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Information technology	\$ 2,876	\$ 2,060	\$ 1,518
Loan processing	966	1,485	1,114
Other taxes	1,007	1,164	973
Temporary help and recruiting	1,624	1,031	532
Telephone and data lines	1,378	652	514
Travel and entertainment	630	567	507
Stationary and supplies	508	516	496
Postage	515	433	415
Director fees	452	409	359
Outsourced services	457	355	180
Portfolio maintenance	366	266	313
Dues and subscriptions	394	326	287
Contributions	355	301	279
Insurance	689	402	277
Deferred compensation expense	906	271	203
Miscellaneous other expense	1,637	1,962	1,879
<b>Other operating expense</b>	<b>\$ 14,760</b>	<b>\$ 12,200</b>	<b>\$ 9,846</b>

**Note 22 Related Party Transactions**

In the ordinary course of business, the Bank granted loans to principal officers, directors and their affiliates. Loan activity during 2013 and 2012 was as follows:

Following is a summary of these transactions:

<i>(dollars in thousands)</i>	<b>2013</b>	<b>2012</b>
Balance, January 1	\$ 2,884	\$ 6,004
Additions	200	5
Amounts collected	(52)	(3,125)
Balance, December 31	\$ 3,032	\$ 2,884

## **Table of Contents**

Related party deposits amounted to \$2.0 million and \$1.7 million at December 31, 2013 and 2012, respectively.

### **Note 23 Financial Instruments with Off-Balance Sheet Risk, Contingencies and Concentration of Credit Risk**

#### **Off-Balance Sheet Risk**

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated statements of financial condition. The contractual amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument of commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments.

Commitments to extend credit, which include unused lines of credit and unfunded commitments to originate loans, are agreements to lend to a customer as long as there is no violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Some of the commitments are expected to expire without being drawn upon, and the total commitment amounts do not necessarily represent future cash requirements. Total commitments to extend credit at December 31, 2013 were \$405.3 million. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on a credit evaluation of the counterparty. Collateral varies but may include accounts receivable, marketable securities, inventory, property, plant and equipment, residential real estate, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to a customer for a third party. Such standby letters of credits are issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is similar to that involved in extending loan facilities to customers. The collateral varies, but may include accounts receivable, marketable securities, inventory, property, plant and equipment, and residential real estate for those commitments for which collateral is deemed necessary. The Corporation's obligation under standby letters of credit as of December 31, 2013 amounted to \$21.2 million. There were no outstanding bankers' acceptances as of December 31, 2013.

#### **Contingencies**

##### *Legal Matters*

In the ordinary course of business, the Corporation is subject to litigation, claims, and assessments that involve claims for monetary relief. Some of these are covered by insurance. Based upon information presently available to the Corporation and its counsel, it is the Corporation's opinion that any legal and financial responsibility arising from such claims will not have a material, adverse effect on its results of operations, financial condition or capital.

##### *Indemnifications*

In general, the Corporation does not sell loans with recourse, except to the extent that it arises from standard loan-sale contract provisions. These provisions cover violations of representations and warranties and, under certain

circumstances, first payment default by borrowers. These indemnifications may include the repurchase of loans by the Corporation, and are considered customary provisions in the secondary market for conforming mortgage loan sales. For the twelve months ended December 31, 2013, the Corporation settled two make-whole requests from the secondary market totaling \$278 thousand. For the twelve months ended December 31, 2012 and 2011, there were no make-whole requests settled.



## **Table of Contents**

### **Concentrations of Credit Risk**

The Corporation has a material portion of its loans in real estate related loans. A predominant percentage of the Corporation's real estate exposure, both commercial and residential, is in the Corporation's primary trade area which includes portions of Delaware, Chester, Montgomery and Philadelphia counties in Southeastern Pennsylvania. The Corporation is aware of this concentration and attempts to mitigate this risk to the extent possible in many ways, including the underwriting and assessment of borrower's capacity to repay. See Note 5 "Loans and Leases" for additional information.

As of December 31, 2013, the Corporation had no loans sold with recourse outstanding.

### **Note 24 Dividend Restrictions**

The Bank is subject to the Pennsylvania Banking Code of 1965 (the "Code"), as amended, and is restricted in the amount of dividends that can be paid to its sole shareholder, the Corporation. The Code restricts the payment of dividends by the Bank to the amount of its net income during the current calendar year and the retained net income of the prior two calendar years, unless the dividend has been approved by the Board of Governors of the Federal Reserve System. The total retained net income for the years ended December 31, 2012 and 2013 was \$24.8 million. Accordingly, the dividend payable by the Bank to the Corporation is limited to \$24.8 million plus net income to be earned in 2014. However, the amount of dividends paid by the Bank may not reduce capital levels below levels that would cause the Bank to be considered less than adequately capitalized as detailed in Note 25 "Regulatory Capital Requirements".

### **Note 25 Regulatory Capital Requirements**

#### **A. General Regulatory Capital Information**

Both the Corporation and the Bank are subject to various regulatory capital requirements, administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if taken, could have a direct material effect on the Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

#### **B. S-3 Shelf Registration Statement and Offerings Thereunder**

In April 2012, the Corporation filed a shelf registration statement (the "Shelf Registration Statement") to replace its 2009 Shelf Registration Statement, which was set to expire in June 2012. This new Shelf Registration Statement allows the Corporation to raise additional capital through offers and sales of registered securities consisting of common stock, debt securities, warrants to purchase common stock, stock purchase contracts and units or units consisting of any combination of the foregoing securities. Using the prospectus in the Shelf Registration Statement, together with applicable prospectus supplements, the Corporation may sell, from time to time, in one or more offerings, such securities in a dollar amount up to \$150,000,000, in the aggregate.

The Corporation has in place under its Shelf Registration Statement a Dividend Reinvestment and Stock Purchase Plan (the "Plan"), which was amended and restated on April 27, 2012, primarily to increase the number of shares which

can be issued by the Corporation from 850,000 to 1,500,000 shares of registered common stock. The Plan allows for the grant of a request for waiver ( RFW ) above the Plan s maximum investment of \$120 thousand per account per year. An RFW is granted based on a variety of factors, including the Corporation s current and projected capital needs, prevailing market prices of the Corporation s common stock and general economic and market conditions.

**Table of Contents**

The Plan is intended to allow both existing shareholders and new investors to easily and conveniently increase their investment in the Corporation without incurring many of the fees and commissions normally associated with brokerage transactions. For the twelve months ended December 31, 2013, the Corporation issued 7,455 shares and raised \$176 thousand through the Plan.

**C. Shares Issued in Mergers and Acquisitions**

In connection with the acquisition of PWMG, the Corporation issued 322,101 common shares, valued at \$6.7 million, to former shareholders of PWMG. These shares were registered on an S-3 registration statement filed by the Corporation in September 2011.

In connection with the merger with FKF, the Corporation issued 1,630,053 common shares, valued at \$26.5 million, to former shareholders of FKF. These shares were registered on an S-4 registration statement filed by the Corporation in January 2010.

**D. Regulatory Capital Ratios**

As set forth in the following table, quantitative measures have been established to ensure capital adequacy ratios required of both the Corporation and the Bank. Both the Corporation's and the Bank's Tier II capital ratios are calculated by adding back a portion of the loan loss reserve to the Tier I capital. The Corporation believes that as of December 31, 2013 and 2012, the Corporation and the Bank had met all capital adequacy requirements to which they were subject. Federal banking regulators have defined specific capital categories, and categories range from a best of well capitalized to a worst of critically under-capitalized. Both the Corporation and the Bank were classified as well capitalized as of December 31, 2013 and 2012.

The Corporation's and the Bank's actual capital amounts and ratios as of December 31, 2013 and 2012 are presented in the following table:

<i>(dollars in thousands)</i>	<b>Actual</b>		<b>Minimum to be Well Capitalized</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
<b>December 31, 2013</b>				
Total (Tier II) capital to risk weighted assets:				
Corporation	\$ 200,667	12.55%	\$ 159,924	10%
Bank	\$ 197,463	12.38%	\$ 159,493	10%
Tier I capital to risk weighted assets:				
Corporation	\$ 185,022	11.57%	\$ 95,954	6%
Bank	\$ 181,818	11.40%	\$ 95,696	6%
Tier I capital to average assets:				
Corporation	\$ 185,022	9.29%	\$ 99,543	5%
Bank	\$ 181,818	9.14%	\$ 99,424	5%
<b>December 31, 2012</b>				
Total (Tier II) capital to risk weighted assets:				
Corporation	\$ 174,885	12.02%	\$ 145,528	10%
Bank	\$ 176,985	12.20%	\$ 145,124	10%

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Tier I capital to risk weighted assets:				
Corporation	\$ 160,425	11.02%	\$ 87,317	6%
Bank	\$ 162,525	11.20%	\$ 87,074	6%
Tier I capital to average assets:				
Corporation	\$ 160,425	8.72%	\$ 91,989	5%
Bank	\$ 162,525	8.84%	\$ 91,940	5%

**Table of Contents****Note 26 Selected Quarterly Financial Data (Unaudited)**

<i>(dollars in thousands, except per share data)</i>	<b>2013</b>			
	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>
Interest income	\$ 18,855	\$ 19,217	\$ 19,820	\$ 20,525
Interest expense	1,446	1,294	1,287	1,400
Net interest income	17,409	17,923	18,533	19,125
Provision for loan and lease losses	804	1,000	959	812
Other income	11,790	12,943	11,387	12,235
Other expense	20,235	20,524	19,323	20,658
Income before income taxes	8,160	9,342	9,638	9,890
Tax expense	2,840	3,090	3,237	3,419
Net income	\$ 5,320	\$ 6,252	\$ 6,401	\$ 6,471
Basic earnings per common share*	\$ 0.40	\$ 0.47	\$ 0.48	\$ 0.48
Diluted earnings per common share*	\$ 0.40	\$ 0.46	\$ 0.47	\$ 0.47
Dividend declared	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.18

<i>(dollars in thousands, except per share data)</i>	<b>2012</b>			
	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>
Interest income	\$ 18,372	\$ 18,188	\$ 18,081	\$ 18,682
Interest expense	2,387	2,285	2,130	1,786
Net interest income	15,985	15,903	15,951	16,896
Provision for loan and lease losses	1,000	1,003	1,000	1,000
Other income	9,587	11,381	12,248	13,170
Other expense	16,795	18,128	18,889	21,089
Income (loss) before income taxes	7,777	8,153	8,310	7,977
Tax expense (benefit)	2,704	2,808	2,885	2,673
Net income (loss)	\$ 5,073	\$ 5,345	\$ 5,425	\$ 5,304
Basic earnings per common share*	\$ 0.39	\$ 0.41	\$ 0.41	\$ 0.40
Diluted earnings per common share*	\$ 0.39	\$ 0.40	\$ 0.41	\$ 0.40
Dividend declared	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16

\* Earnings per share is computed independently for each period shown. As a result, the sum of the quarters may not equal the total earnings per share for the year.

**Note 27 Parent Company-Only Financial Statements**

The condensed financial statements of the Corporation (parent company only) are presented below. These statements should be read in conjunction with the Notes to the Consolidated Financial Statements.

**Table of Contents****A. Condensed Balance Sheets**

<i>(dollars in thousands)</i>	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets:</b>		
Cash	\$ 5,435	\$ 5,392
Investment securities	401	99
Investments in subsidiaries, as equity in net assets	227,245	206,496
Premises and equipment, net	2,582	2,681
Goodwill	245	245
Other assets	2,164	896
<b>Total assets</b>	<b>\$ 238,072</b>	<b>\$ 215,809</b>
<b>Liabilities and shareholders' equity:</b>		
Borrowings	\$ 7,050	\$ 9,400
Other liabilities	1,124	2,845
<b>Total liabilities</b>	<b>\$ 8,174</b>	<b>\$ 12,245</b>
Common stock, par value \$1, authorized 100,000,000 shares issued 16,596,869 shares and 16,390,608 shares as of December 31, 2013 and 2012, respectively, and outstanding 13,650,354 shares and 13,412,690 shares as of December 31, 2013 and 2012, respectively		
	\$ 16,597	\$ 16,390
Paid-in capital in excess of par value	95,673	89,137
Less common stock in treasury, at cost 2,946,515 shares and 2,977,918 shares as of December 31, 2013 and 2012, respectively	(30,764)	(30,745)
Accumulated other comprehensive loss, net of deferred income taxes benefit	(5,565)	(10,078)
Retained earnings	153,957	138,860
<b>Total shareholders' equity</b>	<b>\$ 229,898</b>	<b>\$ 203,564</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 238,072</b>	<b>\$ 215,809</b>

**B. Condensed Statements of Income**

<i>(dollars in thousands)</i>	<b>Twelve Months Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Dividends from subsidiaries	\$ 8,165	\$ 13,075	\$ 9,650
Interest and other income	2,062	2,672	2,646
<b>Total operating income</b>	<b>10,227</b>	<b>15,747</b>	<b>12,296</b>

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Expenses	1,996	2,410	2,678
Income before equity in undistributed income of subsidiaries	8,231	13,337	9,618
Equity in undistributed income of subsidiaries	16,236	7,761	9,973
Income before income taxes	24,467	21,098	19,591
Income tax expense (benefit)	23	(49)	(11)
Net income	\$ 24,444	\$ 21,147	\$ 19,602



**Table of Contents****C. Condensed Statements of Cash Flows**

<i>(dollars in thousands)</i>	<b>Twelve Months Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Operating activities:</b>			
Net Income	\$ 24,444	\$ 21,147	\$ 19,602
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of subsidiaries	(16,236)	(7,761)	(9,973)
Depreciation and amortization	98	98	105
Net gain on sale of available for sale securities			(38)
Stock-based compensation cost	1,004	1,283	876
Net accretion of fair value adjustments			(55)
Other, net	(1,138)	(239)	360
 Net cash provided by operating activities	 8,172	 14,528	 10,877
<b>Investing Activities:</b>			
Proceeds from sale of available for sale securities			99
Acquisitions, net of cash acquired		(9,278)	(13,367)
Sale of subsidiary		10,500	18,411
Investment in subsidiaries		(4,800)	(17,200)
 Net cash used by investing activities		 (3,578)	 (12,057)
<b>Financing activities:</b>			
Dividends paid	(9,297)	(8,529)	(7,679)
Change in other borrowings	(2,350)	(4,291)	11,691
Decrease in junior subordinated debt			(12,028)
Proceeds from sale of treasury stock	1,317	317	
Repurchase of treasury stock	(553)		(42)
Proceeds from issuance of common stock	176	2,118	8,325
Payment of contingent consideration for business combinations	(2,100)	(1,050)	
Excess tax benefit from stock-based compensation	708	112	141
Proceeds from exercise of stock options	3,970	1,363	966
 Net cash (used) provided by financing activities	 (8,129)	 (9,960)	 1,374
 Change in cash and cash equivalents	 43	 990	 194
Cash and cash equivalents at beginning of year	5,392	4,402	4,208
 Cash and cash equivalents at end of year	 \$ 5,435	 \$ 5,392	 \$ 4,402

**Note 28 Segment Information**

FASB Codification 280 Segment Reporting identifies operating segments as components of an enterprise which are evaluated regularly by the Corporation's Chief Operating Decision Maker, our Chief Executive Officer, in deciding how to allocate resources and assess performance. The Corporation has applied the aggregation criterion set forth in this codification to the results of its operations.

The Corporation's Banking segment consists of commercial and retail banking. The Banking segment is evaluated as a single strategic unit which generates revenues from a variety of products and services. The Banking segment generates interest income from its lending (including leases) and investing activities and is dependent on the gathering of lower cost deposits from its branch network or borrowed funds from other sources for funding its loans, resulting in the generation of net interest income. The Banking segment also derives

**Table of Contents**

revenues from other sources including gains on the sale in available for sale investment securities, gains on the sale of residential mortgage loans, service charges on deposit accounts, cash sweep fees, overdraft fees, BOLI income and interchange revenue associated with its Visa Check Card offering.

The Wealth Management segment has responsibility for a number of activities within the Corporation, including trust administration, other related fiduciary services, custody, investment management and advisory services, employee benefits and IRA administration, estate settlement, tax services and brokerage. Bryn Mawr Trust of Delaware and Lau Associates are included in the Wealth Management Segment of the Corporation since they have similar economic characteristics, products and services to those of the Wealth Management division of the Corporation.

The accounting policies of the Corporation are applied by segment in the following tables. The segments are presented on a pre-tax basis which is the way the Corporation evaluates business results.

**Table of Contents**

The following table details the Corporation's segments.

	As of or for the Twelve Months Ended December 31,								
	2013 Wealth			2012 Wealth			2011 Wealth		
(dollars in thousands)	Banking	Management	Consolidated	Banking	Management	Consolidated	Banking	Management	Consolidated
Net interest income	\$ 72,987	\$ 3	\$ 72,990	\$ 64,731	\$ 4	\$ 64,735	\$ 62,894	\$ 7	\$ 62,901
Less: loan loss provision	3,575		3,575	4,003		4,003	6,088		6,088
Net interest income after loan loss provision	69,412	3	69,415	60,728	4	60,732	56,806	7	56,813
Other income:									
Fees for wealth management services		35,184	35,184		29,798	29,798		21,669	21,669
Service charges on deposit accounts	2,445		2,445	2,477		2,477	2,495		2,495
Loan servicing and other fees	1,845		1,845	1,776		1,776	1,824		1,824
Net gain on sale of loans	4,117		4,117	6,735		6,735	2,517		2,517
Net (loss) gain on sale of available for sale securities	(8)		(8)	1,415		1,415	1,783		1,783
Net (loss) gain on sale of other real estate owned	(300)		(300)	(86)		(86)	(97)		(97)
MOI income	358		358	428		428	462		462
Other operating income	4,546	168	4,714	3,737	106	3,843	3,390	16	3,406
Total other income	13,003	35,352	48,355	16,482	29,904	46,386	12,374	21,685	34,059
Other expenses:									
Salaries & wages	24,210	12,136	36,346	22,248	10,883	33,131	20,016	8,068	28,084
Employee benefits	5,942	2,890	8,832	5,660	2,467	8,127	4,837	2,052	6,889
Occupancy & equipment	5,357	1,505	6,862	4,619	1,255	5,874	4,149	1,027	5,176
Amortization of intangible assets	312	2,321	2,633	294	2,117	2,411	324	1,166	1,490
Professional fees	2,246	210	2,456	2,665	203	2,868	2,156	155	2,311
Other operating expenses	20,080	3,531	23,611	19,290	3,200	22,490	15,776	2,003	17,779
Total other expenses	58,147	22,593	80,740	54,776	20,125	74,901	47,258	14,471	61,729

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Segment profit	24,268	12,762	37,030	22,434	9,783	32,217	21,922	7,221	29,143
Intersegment (revenues) expenses*	(372)	372		(484)	484		(337)	337	
Pre-tax segment profit after eliminations	\$ 23,896	\$ 13,134	\$ 37,030	\$ 21,950	\$ 10,267	\$ 32,217	\$ 21,585	\$ 7,558	\$ 29,143
% of segment pre-tax profit after eliminations	64.5%	35.5%	100.0%	68.1%	31.9%	100.0%	74.1%	25.9%	100.0%
Segment assets (dollars in millions)	\$ 2,020.7	\$ 41.0	\$ 2,061.7	\$ 1,990.9	\$ 45.0	\$ 2,035.9	\$ 1,738.9	\$ 34.5	\$ 1,773.4

\* Intersegment revenues consist of rental payments, deposit interest and management fees.

**Table of Contents**

Other segment information:

**Wealth Management Segment Information**

	<i>(dollars in millions)</i>	
	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Assets under management, administration, supervision and brokerage	\$ 7,268.3	\$ 6,663.2

**Table of Contents**

**ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

The Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer, Frederick C. Peters II, and Chief Financial Officer, J. Duncan Smith, CPA, of the effectiveness of the Corporation's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2013 pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures as of December 31, 2013 are effective.

**Changes in Internal Control over Financial Reporting**

There were no changes in the Corporation's internal control over financial reporting during the fourth quarter of 2013 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

**Design and Evaluation of Internal Control Over Financial Reporting**

Pursuant to Section 404 of Sarbanes-Oxley, the following is a report of management's assessment of the design and effectiveness of our internal controls for the fiscal year ended December 31, 2013, and a report from our independent registered public accounting firm attesting to the effectiveness of our internal controls:

**Table of Contents**

**Management's Report on Internal Control Over Financial Reporting**

The Corporation is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this Annual Report on Form 10-K. The consolidated financial statements and notes included in this Annual Report on Form 10-K have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on Management's best estimates and judgments.

The Corporation's Management is responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles; provide a reasonable assurance that receipts and expenditures of the Corporation are only being made in accordance with authorizations of Management and directors of the Corporation; and provide a reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Corporation's assets that could have a material effect on the financial statements. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by Management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are noted.

Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management, including the Corporation's Chief Executive Officer and Chief Financial Officer, assessed the Corporation's system of internal control over financial reporting as of December 31, 2013, in relation to the criteria for effective control over financial reporting as described in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, Management concludes that, as of December 31, 2013, the Corporation's system of internal control over financial reporting is effective.

KPMG, LLP, which is the independent registered public accounting firm that audited the financial statements in this Annual Report on Form 10-K has issued an attestation report on the Corporation's internal control over financial reporting which can be found below.



**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Shareholders**

**Bryn Mawr Bank Corporation:**

We have audited Bryn Mawr Bank Corporation and subsidiaries (the Corporation) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Corporation as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the years in the three-year period ended December 31, 2013, and our report dated March 14, 2014 expressed an unqualified opinion on those consolidated financial statements.

Philadelphia, Pennsylvania March 14, 2014

**ITEM 9B. OTHER INFORMATION**

None.

**Table of Contents****PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required for Item 10 is incorporated by reference to the sections titled Our Board of Directors, Information About our Directors, Information About our Executive Officers, Corporate Governance, Audit Committee Report and Section 16(a) Beneficial Ownership Reporting Compliance in the 2014 Proxy Statement.

The Corporation has adopted a Code of Business Conduct and Ethics (the Code) which amended, restated and combined into one code its Code of Ethics for Officers and Directors and its Employee Code of Ethics. The Code is available on the Corporation's website at [www.bmtc.com](http://www.bmtc.com) by clicking About Us followed by Investor Relations and Governance Documents, and printed copies are available to any shareholder upon request. The Code meets the requirements for a code of ethics for the Corporation's Chief Executive Officer, Chief Financial Officer and Comptroller or persons performing similar functions under Item 406 of Regulation S-K of the SEC. Any amendments to the Code, or any waivers of the Code for directors or executive officers will be disclosed promptly on a Form 8-K filed with the SEC or by any other means approved by the SEC.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required for Item 11 is incorporated by reference to section titled Director Compensation, Executive Compensation, Compensation Committee Report and Compensation Committee Interlocks and Insider Participation in the 2014 Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information required for Item 12 is found below and is incorporated by reference to the section titled Security Ownership of Certain Beneficial Owners and Management in the 2014 Proxy Statement.

**Equity Compensation Plan Information as of December 31, 2013:**

<b>Plan Category</b>	<b>A. Number of securities to be issued upon exercise of outstanding options</b>	<b>B. Weighted-average exercise price of outstanding options</b>	<b>C. Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A)</b>
Equity compensation plans approved by shareholders	591,086	\$ 20.73	216,905
Equity compensation plans not approved by shareholders			

Total	591,086	\$	20.73	216,905
-------	---------	----	-------	---------

We have agreed to pay, and our non-employee independent directors have agreed to accept, payment of their annual \$12,500 retainer compensation in the form of our common stock, payable in April of each year at the market value of the stock on the day prior to the day of payment. If all of the Corporation's non-employee independent directors, including the directors elected at the Annual Meeting, continue this compensation arrangement for their 2013-2014 terms as directors, it is estimated, based on the \$30.18 per share market price of the common stock on December 31, 2013, as listed on NASDAQ, that such directors, as a group, will receive a total of 3,313 shares of our common stock as retainer compensation.

**Table of Contents**

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required for Item 13 is incorporated by reference to sections titled Transactions With Related Persons and Corporate Governance Director Independence in the 2014 Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required for Item 14 is incorporated by reference to the sections Independent Registered Public Accounting Firm and Audit and Non-Audit Fees in the 2014 Proxy Statement.

**Table of Contents****PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*****Item 15(a)*** (1 & 2) Financial Statements and Schedules

The financial statements listed in the accompanying index to financial statements are filed as part of this Annual Report.

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	64
<u>Consolidated Balance Sheets</u>	65
<u>Consolidated Statements of Income</u>	66
<u>Consolidated Statements of Comprehensive Income</u>	67
<u>Consolidated Statements of Cash Flows</u>	68
<u>Consolidated Statement of Changes in Shareholders' Equity</u>	69
<u>Notes to Consolidated Financial Statements</u>	70

***Item 15(a)(3) and (b)*** Exhibits

<b>Exhibit No.</b>	<b>Description and References</b>
2.1	Stock Purchase Agreement, dated as of February 18, 2011, by and between Bryn Mawr Bank Corporation and Hershey Trust Company, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with SEC on February 18, 2011
2.2	Amendment to Stock Purchase Agreement, dated as of May 27, 2011, by and between Hershey Trust Company and Bryn Mawr Bank Corporation, incorporated by reference to Exhibit 2.2 of the Corporation's 8-K filed with the SEC on May 27, 2011
2.3	Assignment and Assumption Agreement, dated as of May 27, 2011, by and between Hershey Trust Company and PWMG Bank Holding Company Trust, incorporated by reference to Exhibit 2.3 of the Corporation's 8-K filed with the SEC on May 27, 2011
2.4	Stock Purchase Agreement, dated as of February 3, 2012, by and among Bryn Mawr Bank Corporation, Davidson Trust Company, Boston Private (PA) Corporation, Bruce K. Bauder, Ernest E. Cecilia, Joseph J. Costigan, William S. Covert, James M. Davidson, Steven R. Klammer, N. Ray Sague, Malcolm C. Wilson, Boston Private Financial Holdings, Inc., and Alvin A. Clay III, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on February 7, 2012
2.5	Purchase and Assumption Agreement, dated as of April 27, 2012, by and between The Bryn Mawr Trust Company and First Bank of Delaware, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on May 2, 2012
2.6	

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Amendment to Stock Purchase Agreement, dated as of May 15, 2012, by and among Bryn Mawr Bank Corporation, Davidson Trust Company, Boston Private (PA) Corporation, Bruce K. Bauder, Ernest E. Cecilia, Joseph J. Costigan, William S. Covert, James M. Davidson, Steven R. Klammer, N. Ray Sague, Malcolm C. Wilson, Boston Private Financial Holdings, Inc., and Alvin A. Clay III, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on May 18, 2012

2.7

Amendment to Purchase and Assumption Agreement, dated as of October 12, 2012, by and between The Bryn Mawr Trust Company and First Bank of Delaware, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on October 18, 2012

**Table of Contents**

<b>Exhibit No.</b>	<b>Description and References</b>
2.8	Amendment to Purchase and Assumption Agreement, dated as of November 14, 2012, by and between The Bryn Mawr Trust Company and First Bank of Delaware, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on November 19, 2012
2.9	Agreement and Plan of Merger, dated as of March 27, 2013, by and between Bryn Mawr Bank Corporation and MidCoast Community Bancorp, Inc., incorporated by reference to Exhibit 2.1 of the Corporation's Form 8-K filed with the SEC on March 29, 2013
3.1	Amended and Restated By-Laws, effective November 20, 2007, incorporated by reference to Exhibit 3.2 of the Corporation's Form 8-K filed with the SEC on November 21, 2007
3.2	Amended and Restated Articles of Incorporation, effective November 21, 2007, incorporated by reference to Exhibit 3.1 of the Corporation's Form 8-K filed with the SEC on November 21, 2007
4.1	Shareholders Rights Plan, dated November 18, 2003, incorporated by reference to Exhibit 4 of the Corporation's Form 8-A12G filed with the SEC on November 25, 2003
4.2	Amended and Restated By-Laws, effective November 20, 2007, incorporated by reference to Exhibit 3.2 of the Corporation's Form 8-K filed with the SEC on November 21, 2007
4.3	Amended and Restated Articles of Incorporation, effective November 21, 2007, incorporated by reference to Exhibit 3.1 of the Corporation's Form 8-K filed with the SEC on November 21, 2007
4.4	Subordinated Note Purchase Agreement dated July 30, 2008, incorporated by reference to Exhibit 4.4 of the Corporation's 10-Q filed with SEC on November 10, 2008
4.5	Subordinated Note Purchase Agreement dated August 28, 2008, incorporated by reference to Exhibit 4.5 of the Corporation's 10-Q filed with the SEC on November 10, 2008
4.6	Subordinated Note Purchase Agreement dated April 20, 2009, incorporated by reference to Exhibit 4.6 of the Corporation's 10-Q filed with the SEC on August 7, 2009
4.7	Shareholder Rights Agreement, dated as of November 16, 2012, between Bryn Mawr Bank Corporation and Computershare Shareowner Services LLC, as Rights Agent, incorporated by reference to Exhibit 4.1 of the Corporation's 8-K filed with the SEC on November 16, 2012
4.8	Amendment to Shareholder Rights Agreement, dated as of November 16, 2012, between Bryn Mawr Bank Corporation and Computershare Shareowner Services LLC, as Rights Agent (and successor to Mellon Investor services LLC), incorporated by reference to Exhibit 4.2 of the Corporation's 8-K filed with the SEC on November 16, 2012
4.9	Amendment No. 1 to Rights Agreement, dated as of December 24, 2013, between Bryn Mawr Bank Corporation and Computershare Inc. (successor by merger to Computershare Shareowner Services LLC), as Rights Agent, incorporated by reference to Exhibit 4.2 of the Corporation's Registration Statement on Form 8-A/A on December 26, 2013
10.1*	Amended and Restated Supplemental Employee Retirement Plan of the Bryn Mawr Bank Corporation, effective January 1, 1999, incorporated by reference to Exhibit 10.1 of the Corporation's Form 10-K filed with the SEC on March 13, 2008
10.2**	Form of Restricted Stock Agreement for Employees (Service/Performance Based) Subject to the 2010 Long Term Incentive Plan, incorporated by reference to Exhibit 10.3 of the



Corporation's Form 10-K filed with the SEC on March 16, 2012

10.3\*

Amended and Restated Deferred Bonus Plan for Executives of Bryn Mawr Bank Corporation, effective January 1, 2008 incorporated by reference to Exhibit 10.4 of the Corporation's Form 10-K filed with the SEC on March 16, 2009

**Table of Contents**

<b>Exhibit No.</b>	<b>Description and References</b>
10.4*	Amended and Restated Deferred Payment Plan for Directors of Bryn Mawr Bank Corporation, effective January 1, 2008 incorporated by reference to Exhibit 10.5 of the Corporation's Form 10-K filed with the SEC on March 16, 2009
10.5*	Amended and Restated Deferred Payment Plan for Directors of Bryn Mawr Trust Company, effective January 1, 2008 incorporated by reference to Exhibit 10.6 of the Corporation's Form 10-K filed with the SEC on March 16, 2009
10.6*	Employment Agreement, dated January 11, 2001, between the Bryn Mawr Bank Corporation and Frederick C. Peters II, incorporated by reference to Exhibit 10.N of the Corporation's Form 10-K filed with the SEC on March 29, 2001
10.7*	Executive Change-of-Control Severance Agreement, dated January 22, 2001, between the Bryn Mawr Trust Company and Frederick C. Peters II, incorporated by reference to Exhibit 10.K of the Corporation's Form 10-K filed with the SEC on March 15, 2007
10.8**	The Bryn Mawr Bank Corporation 2001 Stock Option Plan, incorporated by reference to Appendix B of the Corporation's Proxy Statement dated March 8, 2001 filed with the SEC on March 6, 2001
10.9**	Bryn Mawr Bank Corporation 2004 Stock Option Plan, incorporated by reference to Appendix A of the Corporation's Proxy Statement dated March 10, 2004 filed with the SEC on March 8, 2004
10.10*	Executive Change-of-Control Amended and Restated Severance Agreement, dated May 21, 2004, between the Bryn Mawr Trust Company and Alison E. Gers, incorporated by reference to Exhibit 10.M of the Corporation's Form 10-K filed with the SEC on March 15, 2007
10.11*	Executive Change-of-Control Amended and Restated Severance Agreement, dated May 21, 2004, between the Bryn Mawr Trust Company and Joseph G. Keefer, incorporated by reference to Exhibit 10.N of the Corporation's Form 10-K filed with the SEC on March 15, 2007
10.12*	Executive Severance and Change of Control Agreement, dated April 4, 2005, between the Bryn Mawr Trust Company and J. Duncan Smith, incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on April 6, 2005
10.13**	Form of Key Employee Non-Qualified Stock Option Agreement, incorporated by reference to Exhibit 10.3 of the Corporation's Form 10-Q filed with the SEC on May 10, 2005
10.14**	Form of Non-Qualified Stock Option Agreement for Non-Employee Directors, incorporated by reference to Exhibit 10.2 of the Corporation's Form 10-Q filed with the SEC on May 10, 2005
10.15*	Letter Employment Agreement, dated January 3, 2007, from the Bryn Mawr Trust Company to Matthew G. Waschull, incorporated by reference to Exhibit 10.2 of the Corporation's Form 10-Q filed with the SEC on August 7, 2007
10.16**	2007 Long Term Incentive Plan, effective April 25, 2007, incorporated by reference to Exhibit 10.1 of the Corporation's Form 10-Q filed with the SEC May 10, 2007
10.17**	Bryn Mawr Bank Corporation Supplemental Employee Retirement Plan for Select Executives, executed December 8, 2008, incorporated by reference to Exhibit 10.20 of the Corporation's Form 10-K filed with the SEC on March 16, 2009
10.18*	

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Restricted Covenant Agreement, dated as of November 2, 2009, between the Bryn Mawr Trust Company and Francis J. Leto, incorporated by reference to Exhibit 10.2 of the Corporation's 8-K filed with the SEC on November 6, 2009

10.19\*

Executive Change-of-Control Amended and Restated Severance Agreement, dated November 2, 2009, between the Bryn Mawr Trust Company and Francis J. Leto, incorporated by reference to Exhibit 10.1 of the Corporation's 8-K filed with the SEC on November 6, 2009

**Table of Contents**

<b>Exhibit No.</b>	<b>Description and References</b>
10.20**	Bryn Mawr Bank Corporation Dividend Reinvestment and Stock Purchase Plan with Request for Waiver Program, effective July 20, 2009, incorporated by reference to the prospectus supplement filed with the SEC on July 20, 2009 pursuant to Rule 424(b)(2) of the Securities Act
10.21**	Bryn Mawr Bank Corporation 2010 Long-Term Incentive Plan, effective April 28, 2010, incorporated by reference to Exhibit 10.24 of the Corporation's Form 10-Q filed with the SEC on May 10, 2010
10.22*	Amended and Restated Transition, Consulting, Noncompetition and Retirement Agreement, dated November 25, 2008, by and among First Keystone Financial, Inc., First Keystone Bank and Donald S. Guthrie, as assumed by Bryn Mawr Bank Corporation and The Bryn Mawr Trust Company as of July 1, 2010, incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on July 1, 2010
10.23**	First Keystone Financial, Inc. Amended and Restated 1998 Stock Option Plan, as assumed by Bryn Mawr Bank Corporation, incorporated by reference to Exhibit 10.1 of the Corporation's Post-Effective Amendment No.1 to Form S-4 on Form S-3, filed with the SEC on July 9, 2010
10.24*	Executive Change-of-Control Amended and Restated Severance Agreement, dated September 27, 2010, between the Bryn Mawr Trust Company and Geoffrey L. Halberstadt, incorporated by reference to Exhibit 10.29 of the Corporation's Form 10-K filed with the SEC on March 16, 2011
10.25**	Restricted Stock Agreement for Employees (Service/Performance Based) Subject to the 2010 Long Term Incentive Plan, dated as of January 10, 2011, for Francis J. Leto, incorporated by reference to Exhibit 10.30 of the Corporation's Form 10-K filed with the SEC on March 16, 2011
10.26	Amendment No. 2 to Stock Purchase Agreement by and between PWMG Bank Holding Company Trust and Bryn Mawr Bank Corporation dated September 29, 2011, filed with the SEC on Form 8-K on October 4, 2011
10.27**	Form of Restricted Stock Agreement for Employees (Service/Performance Based) Subject to the 2010 Long Term Incentive Plan, incorporated by reference to Exhibit 10.32 of the Corporation's Form 10-Q filed with the SEC on November 9, 2011
10.28**	Form of Restricted Stock Agreement for Directors (Service/Performance Based) Subject to the 2010 Long Term Incentive Plan, incorporated by reference to Exhibit 10.33 of the Corporation's Form 10-Q filed with the SEC on November 9, 2011
10.29*	Amendment No. 1 to Amended and Restated Deferred Bonus Plan for Executives of Bryn Mawr Bank Corporation, effective as of January 1, 2013, incorporated by reference to Exhibit 10.29 of the Corporation's Form 10-K filed with the SEC on March 15, 2013
10.30*	Amendment No. 2 to Amended and Restated Deferred Bonus Plan for Executives of Bryn Mawr Bank Corporation, effective as of January 1, 2013, incorporated by reference to Exhibit 10.30 of the Corporation's Form 10-K filed with the SEC on March 15, 2013
10.31*	Form of Letter Agreement entered into with certain executive officers of the Corporation in connection with the curtailment of benefits under the Bryn Mawr Bank Corporation Supplemental Employee Retirement Plan for Select Executives, executed December 8, 2008 (SERP II), incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

the SEC on April 4, 2013

10.32\*

Bryn Mawr Bank Corporation Executive Deferred Compensation Plan, effective January 1, 2013, filed herewith

10.33\*

Retention Bonus Agreement, dated as of June 10, 2013, by and between The Bryn Mawr Trust Company and Francis J. Leto, incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on June 14, 2013

**Table of Contents**

<b>Exhibit No.</b>	<b>Description and References</b>
10.34	Mutual Termination Agreement, dated as of August 8, 2013, by and between Bryn Mawr Bank Corporation and MidCoast Community Bancorp, Inc., incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on August 9, 2013
21.1	List of Subsidiaries, filed herewith
23.1	Consent of KPMG LLP, filed herewith
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith
99.1	Corporation's Proxy Statement for 2014 Annual Meeting to be held on April 30, 2014, expected to be filed with the SEC on April 1, 2014, and incorporated herein by reference
101.INS XBRL	Instance Document, filed herewith
101.SCH XBRL	Taxonomy Extension Schema Document, filed herewith
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document, filed herewith
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document, filed herewith
101.LAB XBRL	Taxonomy Extension Label Linkbase Document, filed herewith
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document, filed herewith

\* Management contract or compensatory plan arrangement.

\*\* Shareholder approved compensatory plan pursuant to which the Registrant's Common Stock may be issued to employees of the Corporation.

**Item 15(c) Not Applicable**

Table of Contents

SIGNATURES

Pursuant to the requirements of section 13 or 15d of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

Bryn Mawr Bank Corporation

By /s/ J. Duncan Smith,  
**Treasurer and Chief Financial Officer**

Date March 14, 2014

**Table of Contents**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Corporation and in the capacities and on the date indicated.

NAME	TITLE	DATE
/s/ Frederick C. Peters II	Chairman, President and Chief Executive Officer	March 14, 2014
<b>Frederick C. Peters II</b>	(Principal Executive Officer) and Director	
/s/ J. Duncan Smith	Treasurer and Chief Financial Officer	March 14, 2014
<b>J. Duncan Smith</b>	(Principal Financial and Accounting Officer)	
/s/ David E. Lees	Director	March 14, 2014
<b>David E. Lees</b>		
/s/ Andrea F. Gilbert	Director	March 14, 2014
<b>Andrea F. Gilbert</b>		
/s/ Wendell F. Holland	Director	March 14, 2014
<b>Wendell F. Holland</b>		
/s/ Francis J. Leto	Director	March 14, 2014
<b>Francis J. Leto</b>		
/s/ Lynn B. McKee	Director	March 14, 2014
<b>Lynn B. McKee</b>		
/s/ Jerry L. Johnson	Director	March 14, 2014
<b>Jerry L. Johnson</b>		
/s/ Britton H. Murdoch	Director	March 14, 2014
<b>Britton H. Murdoch</b>		
/s/ Scott M. Jenkins	Director	March 14, 2014



**Scott M. Jenkins**

/s/ Donald S. Guthrie

Director

March 14, 2014

**Donald S. Guthrie**

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description and References</b>
2.1	Stock Purchase Agreement, dated as of February 18, 2011, by and between Bryn Mawr Bank Corporation and Hershey Trust Company, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with SEC on February 18, 2011
2.2	Amendment to Stock Purchase Agreement, dated as of May 27, 2011, by and between Hershey Trust Company and Bryn Mawr Bank Corporation, incorporated by reference to Exhibit 2.2 of the Corporation's 8-K filed with the SEC on May 27, 2011
2.3	Assignment and Assumption Agreement, dated as of May 27, 2011, by and between Hershey Trust Company and PWMG Bank Holding Company Trust, incorporated by reference to Exhibit 2.3 of the Corporation's 8-K filed with the SEC on May 27, 2011
2.4	Stock Purchase Agreement, dated as of February 3, 2012, by and among Bryn Mawr Bank Corporation, Davidson Trust Company, Boston Private (PA) Corporation, Bruce K. Bauder, Ernest E. Cecilia, Joseph J. Costigan, William S. Covert, James M. Davidson, Steven R. Klammer, N. Ray Sague, Malcolm C. Wilson, Boston Private Financial Holdings, Inc., and Alvin A. Clay III, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on February 7, 2012
2.5	Purchase and Assumption Agreement, dated as of April 27, 2012, by and between The Bryn Mawr Trust Company and First Bank of Delaware, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on May 2, 2012
2.6	Amendment to Stock Purchase Agreement, dated as of May 15, 2012, by and among Bryn Mawr Bank Corporation, Davidson Trust Company, Boston Private (PA) Corporation, Bruce K. Bauder, Ernest E. Cecilia, Joseph J. Costigan, William S. Covert, James M. Davidson, Steven R. Klammer, N. Ray Sague, Malcolm C. Wilson, Boston Private Financial Holdings, Inc., and Alvin A. Clay III, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on May 18, 2012
2.7	Amendment to Purchase and Assumption Agreement, dated as of October 12, 2012, by and between The Bryn Mawr Trust Company and First Bank of Delaware, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on October 18, 2012
2.8	Amendment to Purchase and Assumption Agreement, dated as of November 14, 2012, by and between The Bryn Mawr Trust Company and First Bank of Delaware, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on November 19, 2012
2.9	Agreement and Plan of Merger, dated as of March 27, 2013, by and between Bryn Mawr Bank Corporation and MidCoast Community Bancorp, Inc., incorporated by reference to Exhibit 2.1 of the Corporation's Form 8-K filed with the SEC on March 29, 2013
3.1	Amended and Restated By-Laws, effective November 20, 2007, incorporated by reference to Exhibit 3.2 of the Corporation's Form 8-K filed with the SEC on November 21, 2007
3.2	Amended and Restated Articles of Incorporation, effective November 21, 2007, incorporated by reference to Exhibit 3.1 of the Corporation's Form 8-K filed with the SEC on November 21, 2007

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

- 4.1 Shareholders Rights Plan, dated November 18, 2003, incorporated by reference to Exhibit 4 of the Corporation's Form 8-A12G filed with the SEC on November 25, 2003
- 4.2 Amended and Restated By-Laws, effective November 20, 2007, incorporated by reference to Exhibit 3.2 of the Corporation's Form 8-K filed with the SEC on November 21, 2007
- 4.3 Amended and Restated Articles of Incorporation, effective November 21, 2007, incorporated by reference to Exhibit 3.1 of the Corporation's Form 8-K filed with the SEC on November 21, 2007

**Table of Contents**

<b>Exhibit No.</b>	<b>Description and References</b>
4.4	Subordinated Note Purchase Agreement dated July 30, 2008, incorporated by reference to Exhibit 4.4 of the Corporation's 10-Q filed with SEC on November 10, 2008
4.5	Subordinated Note Purchase Agreement dated August 28, 2008, incorporated by reference to Exhibit 4.5 of the Corporation's 10-Q filed with the SEC on November 10, 2008
4.6	Subordinated Note Purchase Agreement dated April 20, 2009, incorporated by reference to Exhibit 4.6 of the Corporation's 10-Q filed with the SEC on August 7, 2009
4.7	Shareholder Rights Agreement, dated as of November 16, 2012, between Bryn Mawr Bank Corporation and Computershare Shareowner Services LLC, as Rights Agent, incorporated by reference to Exhibit 4.1 of the Corporation's 8-K filed with the SEC on November 16, 2012
4.8	Amendment to Shareholder Rights Agreement, dated as of November 16, 2012, between Bryn Mawr Bank Corporation and Computershare Shareowner Services LLC, as Rights Agent (and successor to Mellon Investor services LLC), incorporated by reference to Exhibit 4.2 of the Corporation's 8-K filed with the SEC on November 16, 2012
4.9	Amendment No. 1 to Rights Agreement, dated as of December 24, 2013, between Bryn Mawr Bank Corporation and Computershare Inc. (successor by merger to Computershare Shareowner Services LLC), as Rights Agent, incorporated by reference to Exhibit 4.2 of the Corporation's Registration Statement on Form 8-A/A on December 26, 2013
10.1*	Amended and Restated Supplemental Employee Retirement Plan of the Bryn Mawr Bank Corporation, effective January 1, 1999, incorporated by reference to Exhibit 10.1 of the Corporation's Form 10-K filed with the SEC on March 13, 2008
10.2**	Form of Restricted Stock Agreement for Employees (Service/Performance Based) Subject to the 2010 Long Term Incentive Plan, incorporated by reference to Exhibit 10.3 of the Corporation's Form 10-K filed with the SEC on March 16, 2012
10.3*	Amended and Restated Deferred Bonus Plan for Executives of Bryn Mawr Bank Corporation, effective January 1, 2008 incorporated by reference to Exhibit 10.4 of the Corporation's Form 10-K filed with the SEC on March 16, 2009
10.4*	Amended and Restated Deferred Payment Plan for Directors of Bryn Mawr Bank Corporation, effective January 1, 2008 incorporated by reference to Exhibit 10.5 of the Corporation's Form 10-K filed with the SEC on March 16, 2009
10.5*	Amended and Restated Deferred Payment Plan for Directors of Bryn Mawr Trust Company, effective January 1, 2008 incorporated by reference to Exhibit 10.6 of the Corporation's Form 10-K filed with the SEC on March 16, 2009
10.6*	Employment Agreement, dated January 11, 2001, between the Bryn Mawr Bank Corporation and Frederick C. Peters II, incorporated by reference to Exhibit 10.N of the Corporation's Form 10-K filed with the SEC on March 29, 2001
10.7*	Executive Change-of-Control Severance Agreement, dated January 22, 2001, between the Bryn Mawr Trust Company and Frederick C. Peters II, incorporated by reference to Exhibit 10.K of the Corporation's Form 10-K filed with the SEC on March 15, 2007
10.8**	The Bryn Mawr Bank Corporation 2001 Stock Option Plan, incorporated by reference to Appendix B of the Corporation's Proxy Statement dated March 8, 2001 filed with the SEC on

March 6, 2001

10.9\*\*

Bryn Mawr Bank Corporation 2004 Stock Option Plan, incorporated by reference to Appendix A of the Corporation's Proxy Statement dated March 10, 2004 filed with the SEC on March 8, 2004

**Table of Contents**

<b>Exhibit No.</b>	<b>Description and References</b>
10.10*	Executive Change-of-Control Amended and Restated Severance Agreement, dated May 21, 2004, between the Bryn Mawr Trust Company and Alison E. Gers, incorporated by reference to Exhibit 10.M of the Corporation's Form 10-K filed with the SEC on March 15, 2007
10.11*	Executive Change-of-Control Amended and Restated Severance Agreement, dated May 21, 2004, between the Bryn Mawr Trust Company and Joseph G. Keefer, incorporated by reference to Exhibit 10.N of the Corporation's Form 10-K filed with the SEC on March 15, 2007
10.12*	Executive Severance and Change of Control Agreement, dated April 4, 2005, between the Bryn Mawr Trust Company and J. Duncan Smith, incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on April 6, 2005
10.13**	Form of Key Employee Non-Qualified Stock Option Agreement, incorporated by reference to Exhibit 10.3 of the Corporation's Form 10-Q filed with the SEC on May 10, 2005
10.14**	Form of Non-Qualified Stock Option Agreement for Non-Employee Directors, incorporated by reference to Exhibit 10.2 of the Corporation's Form 10-Q filed with the SEC on May 10, 2005
10.15*	Letter Employment Agreement, dated January 3, 2007, from the Bryn Mawr Trust Company to Matthew G. Waschull, incorporated by reference to Exhibit 10.2 of the Corporation's Form 10-Q filed with the SEC on August 7, 2007
10.16**	2007 Long Term Incentive Plan, effective April 25, 2007, incorporated by reference to Exhibit 10.1 of the Corporation's Form 10-Q filed with the SEC May 10, 2007
10.17**	Bryn Mawr Bank Corporation Supplemental Employee Retirement Plan for Select Executives, executed December 8, 2008, incorporated by reference to Exhibit 10.20 of the Corporation's Form 10-K filed with the SEC on March 16, 2009
10.18*	Restricted Covenant Agreement, dated as of November 2, 2009, between the Bryn Mawr Trust Company and Francis J. Leto, incorporated by reference to Exhibit 10.2 of the Corporation's 8-K filed with the SEC on November 6, 2009
10.19*	Executive Change-of-Control Amended and Restated Severance Agreement, dated November 2, 2009, between the Bryn Mawr Trust Company and Francis J. Leto, incorporated by reference to Exhibit 10.1 of the Corporation's 8-K filed with the SEC on November 6, 2009
10.20**	Bryn Mawr Bank Corporation Dividend Reinvestment and Stock Purchase Plan with Request for Waiver Program, effective July 20, 2009, incorporated by reference to the prospectus supplement filed with the SEC on July 20, 2009 pursuant to Rule 424(b)(2) of the Securities Act
10.21**	Bryn Mawr Bank Corporation 2010 Long-Term Incentive Plan, effective April 28, 2010, incorporated by reference to Exhibit 10.24 of the Corporation's Form 10-Q filed with the SEC on May 10, 2010
10.22*	Amended and Restated Transition, Consulting, Noncompetition and Retirement Agreement, dated November 25, 2008, by and among First Keystone Financial, Inc., First Keystone Bank and Donald S. Guthrie, as assumed by Bryn Mawr Bank Corporation and The Bryn Mawr Trust Company as of July 1, 2010, incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on July 1, 2010
10.23**	First Keystone Financial, Inc. Amended and Restated 1998 Stock Option Plan, as assumed by Bryn Mawr Bank Corporation, incorporated by reference to Exhibit 10.1 of the Corporation's

Edgar Filing: BRYN MAWR BANK CORP - Form 10-K

Post-Effective Amendment No.1 to Form S-4 on Form S-3, filed with the SEC on July 9, 2010

10.24\*

Executive Change-of-Control Amended and Restated Severance Agreement, dated September 27, 2010, between the Bryn Mawr Trust Company and Geoffrey L. Halberstadt, incorporated by reference to Exhibit 10.29 of the Corporation's Form 10-K filed with the SEC on March 16, 2011

**Table of Contents**

<b>Exhibit No.</b>	<b>Description and References</b>
10.25**	Restricted Stock Agreement for Employees (Service/Performance Based) Subject to the 2010 Long Term Incentive Plan, dated as of January 10, 2011, for Francis J. Leto, incorporated by reference to Exhibit 10.30 of the Corporation's Form 10-K filed with the SEC on March 16, 2011
10.26	Amendment No. 2 to Stock Purchase Agreement by and between PWMG Bank Holding Company Trust and Bryn Mawr Bank Corporation dated September 29, 2011, filed with the SEC on Form 8-K on October 4, 2011
10.27**	Form of Restricted Stock Agreement for Employees (Service/Performance Based) Subject to the 2010 Long Term Incentive Plan, incorporated by reference to Exhibit 10.32 of the Corporation's Form 10-Q filed with the SEC on November 9, 2011
10.28**	Form of Restricted Stock Agreement for Directors (Service/Performance Based) Subject to the 2010 Long Term Incentive Plan, incorporated by reference to Exhibit 10.33 of the Corporation's Form 10-Q filed with the SEC on November 9, 2011
10.29*	Amendment No. 1 to Amended and Restated Deferred Bonus Plan for Executives of Bryn Mawr Bank Corporation, effective as of January 1, 2013, incorporated by reference to Exhibit 10.29 of the Corporation's Form 10-K filed with the SEC on March 15, 2013
10.30*	Amendment No. 2 to Amended and Restated Deferred Bonus Plan for Executives of Bryn Mawr Bank Corporation, effective as of January 1, 2013, incorporated by reference to Exhibit 10.30 of the Corporation's Form 10-K filed with the SEC on March 15, 2013
10.31*	Form of Letter Agreement entered into with certain executive officers of the Corporation in connection with the curtailment of benefits under the Bryn Mawr Bank Corporation Supplemental Employee Retirement Plan for Select Executives, executed December 8, 2008 (SERP II), incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on April 4, 2013
10.32*	Bryn Mawr Bank Corporation Executive Deferred Compensation Plan, effective January 1, 2013, filed herewith
10.33*	Retention Bonus Agreement, dated as of June 10, 2013, by and between The Bryn Mawr Trust Company and Francis J. Leto, incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on June 14, 2013
10.34	Mutual Termination Agreement, dated as of August 8, 2013, by and between Bryn Mawr Bank Corporation and MidCoast Community Bancorp, Inc., incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on August 9, 2013
21.1	List of Subsidiaries, filed herewith
23.1	Consent of KPMG LLP, filed herewith
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith



32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith
99.1	Corporation's Proxy Statement for 2014 Annual Meeting to be held on April 30, 2014, expected to be filed with the SEC on April 1, 2014, and incorporated herein by reference

**Table of Contents**

<b>Exhibit No.</b>	<b>Description and References</b>
101.INS XBRL	Instance Document, filed herewith
101.SCH XBRL	Taxonomy Extension Schema Document, filed herewith
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document, filed herewith
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document, filed herewith
101.LAB XBRL	Taxonomy Extension Label Linkbase Document, filed herewith
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document, filed herewith

\* Management contract or compensatory plan arrangement.

\*\* Shareholder approved compensatory plan pursuant to which the Registrant's Common Stock may be issued to employees of the Corporation.