

BRYN MAWR BANK CORP  
Form 10-Q  
August 09, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

**Quarterly Report Under Section 13 or 15 (d)**  
**of the Securities and Exchange Act of 1934.**

For Quarter ended June 30, 2011

Commission File Number 0-15261

**Bryn Mawr Bank Corporation**

(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of

**23-2434506**  
(I.R.S. Employer

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incorporation or organization)

identification No.)

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

19010  
(Zip Code)

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

Not Applicable

Former name, former address and fiscal year, if changed since last report.

Indicate by checkmark whether the registrant (1) has filed all reports 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 that 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 checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

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

Class	Outstanding at August 4, 2011
Common Stock, par value \$1	12,949,313

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**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES**

**FORM 10-Q**

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****Consolidated Balance Sheets**

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
	<i>(dollars in thousands)</i>	
<b>Assets</b>		
Cash and due from banks	\$ 20,620	\$ 10,961
Interest bearing deposits with banks	34,893	78,523
Cash and cash equivalents	55,513	89,484
Investment securities available for sale, at fair value (amortized cost of \$287,039 and \$315,587 as of June 30, 2011 and December 31, 2010 respectively)	289,762	317,052
Loans held for sale	5,923	4,838
Portfolio loans and leases	1,253,448	1,196,717
Less: Allowance for loan and lease losses	(11,341)	(10,275)
Net portfolio loans and leases	1,242,107	1,186,442
Premises and equipment, net	29,469	29,158
Accrued interest receivable	6,103	6,470
Deferred income taxes	13,400	14,551
Mortgage servicing rights	4,662	4,925
Bank owned life insurance ( BOLI )	19,205	18,972
Federal Home Loan Bank ( FHLB ) stock	12,840	14,227
Goodwill	23,169	17,659
Other intangible assets	19,077	7,064
Other investments	5,229	5,156
Other assets	14,268	15,770
Total assets	\$ 1,740,727	\$ 1,731,768
<b>Liabilities</b>		
Deposits:		
Non-interest-bearing	\$ 295,656	\$ 282,356
Interest-bearing	1,041,783	1,059,076
Total deposits	1,337,439	1,341,432
Short-term borrowings	9,541	10,051
FHLB advances and other borrowings	152,501	160,144
Subordinated debentures	22,500	22,500
Junior subordinated debentures	12,004	12,029
Accrued interest payable	3,380	3,293
Other liabilities	19,979	20,901
Total liabilities	1,557,344	1,570,350
<b>Shareholders equity</b>		

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Common stock, par value \$1; authorized 100,000,000 shares; issued 15,850,862 and 15,109,718 shares as of June 30, 2011 and December 31, 2010, respectively, and outstanding of 12,941,320 and 12,195,240 as of June 30, 2011 and December 31, 2010, respectively	15,851	15,110
Paid-in capital in excess of par value	82,475	68,398
Less: Common stock in treasury at cost - 2,909,542 and 2,914,478 shares as of June 30, 2011 and December 31, 2010	(29,833)	(29,881)
Accumulated other comprehensive loss, net of tax benefit	(5,454)	(6,757)
Retained earnings	120,344	114,548
<b>Total shareholders' equity</b>	<b>183,383</b>	<b>161,418</b>
 Total liabilities and shareholders' equity	 \$ 1,740,727	 \$ 1,731,768

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

**Table of Contents****Consolidated Statements of Income**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<i>(dollars in thousands, except share and per share data)</i>				
<b>Interest income:</b>				
Interest and fees on loans and leases	\$ 17,515	\$ 12,740	\$ 34,234	\$ 25,409
Interest on cash and cash equivalents	27	37	59	52
Interest on investment securities:				
Taxable	1,166	699	2,275	1,549
Non-taxable	19	179	187	367
Dividends	124	169	322	341
<b>Total interest income</b>	<b>18,851</b>	<b>13,824</b>	<b>37,077</b>	<b>27,718</b>
<b>Interest expense on:</b>				
Deposits	1,518	1,365	2,941	2,711
Short-term borrowings	6	0	12	1
FHLB advances and other borrowings	977	1,128	1,819	2,285
Subordinated debentures	280	280	556	553
Junior subordinated debentures	271	0	543	0
<b>Total interest expense</b>	<b>3,052</b>	<b>2,773</b>	<b>5,871</b>	<b>5,550</b>
<b>Net interest income</b>	<b>15,799</b>	<b>11,051</b>	<b>31,206</b>	<b>22,168</b>
<b>Provision for loan and lease losses</b>	<b>1,919</b>	<b>994</b>	<b>3,204</b>	<b>4,107</b>
<b>Net interest income after provision for loan and lease losses</b>	<b>13,880</b>	<b>10,057</b>	<b>28,002</b>	<b>18,061</b>
<b>Non-interest income:</b>				
Fees for wealth management services	5,075	3,898	9,265	7,729
Service charges on deposits	615	488	1,195	990
Loan servicing and other fees	460	379	921	761
Net gain on sale of residential mortgage loans	656	606	1,054	1,131
Net gain on sale of available for sale securities	577	0	1,067	1,544
Net loss on sale of other real estate owned ( OREO )	(110)	0	(129)	(152)
Bank owned life insurance ( BOLI ) income	118	0	233	0
Other operating income	774	519	1,769	1,046
<b>Total non-interest income</b>	<b>8,165</b>	<b>5,890</b>	<b>15,375</b>	<b>13,049</b>
<b>Non-interest expenses:</b>				
Salaries and wages	6,700	5,345	13,041	10,632
Employee benefits	1,591	1,364	3,326	2,922
Occupancy and bank premises	1,241	901	2,527	1,885
Furniture, fixtures, and equipment	810	557	1,706	1,152
Advertising	441	256	705	518
Amortization of mortgage servicing rights	158	210	327	409
Net impairment of mortgage servicing rights	196	177	204	218
Amortization of other intangible assets	266	77	427	154
FDIC insurance	250	299	730	613
Impairment of OREO	0	0	127	0
Due diligence and merger-related expenses	174	637	481	985
Professional fees	738	459	1,148	1,078
Other operating expenses	2,304	1,821	4,317	3,290

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Total non-interest expenses	14,869	12,103	29,066	23,856
Income before income taxes	7,176	3,844	14,311	7,254
Income tax expense	2,371	1,438	4,790	2,625
<b>Net income</b>	\$ 4,805	\$ 2,406	\$ 9,521	\$ 4,629
Basic earnings per common share	\$ 0.38	\$ 0.25	\$ 0.76	\$ 0.50
Diluted earnings per common share	\$ 0.38	\$ 0.25	\$ 0.76	\$ 0.50
Dividends declared per share	\$ 0.15	\$ 0.14	\$ 0.30	\$ 0.28
Weighted-average basic shares outstanding	12,693,782	9,740,089	12,520,211	9,319,380
Dilutive potential shares	24,491	12,476	19,446	11,747
Adjusted weighted-average diluted shares	12,718,273	9,752,565	12,539,657	9,331,127

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

**Table of Contents****Consolidated Statements of Cash Flows***(dollars in thousands)*

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating activities:</b>		
Net Income	\$ 9,521	\$ 4,629
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	3,204	4,107
Provision for depreciation and amortization	2,569	1,572
Net gain on sale of available for sale securities	(1,067)	(1,544)
Net gain on sale of residential mortgages	(1,054)	(1,131)
Stock based compensation cost	345	220
Amortization and net impairment of mortgage servicing rights	531	300
Net accretion of fair value adjustments	(513)	0
Amortization of intangible assets	427	154
Impairment of other real estate owned ( OREO )	127	0
Loss on sale of OREO	129	152
Net change in cash surrender value of bank owned life insurance ( BOLI )	(233)	0
Other, net	(739)	182
Loans originated for resale	(32,489)	(42,460)
Proceeds from loans sold	32,190	42,344
Provision for deferred income taxes	447	(210)
Change in income taxes payable/receivable	(366)	1,270
Change in accrued interest receivable	367	(484)
Change in accrued interest payable	87	(467)
 Net cash provided by operating activities	 13,483	 8,634
<b>Investing activities:</b>		
Purchases of investment securities	(108,473)	(178,965)
Proceeds from maturity of investment securities and mortgage-backed securities paydowns	13,504	7,035
Proceeds from sale of investment securities available for sale	68,254	39,034
Proceeds from calls of investment securities	58,590	90,910
Net change in other investments	(29)	37
Net portfolio loan and lease originations	(58,667)	(20,211)
Purchases of premises and equipment	(1,373)	(1,286)
Acquisitions, net of cash acquired	(13,367)	(1,477)
Proceeds from sale of OREO	1,471	873
 Net cash provided by investing activities	 (40,090)	 (64,050)
<b>Financing activities:</b>		
Net change in deposits	(3,675)	15,595
Decrease in short-term borrowings	(510)	0
Dividends paid	(3,725)	(2,504)
Net repayment of FHLB advances and other borrowings	(7,314)	(5,217)
Tax benefit from exercise of stock options	137	46
Proceeds from issuance of common stock	6,848	26,629
Proceeds from exercise of stock options	875	172
 Net cash used by financing activities	 (7,364)	 34,721
 Change in cash and cash equivalents	 (33,971)	 (20,695)



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Cash and cash equivalents at beginning of year	89,484	79,317
Cash and cash equivalents at end of year	\$ 55,513	\$ 58,622

**Supplemental cash flow information:**

Cash paid during the year for:

Income taxes	\$ 4,658	\$ 1,497
Interest	5,784	6,017

**Supplemental cash flow information:**

Available for sale securities purchased, not settled	\$ 2,500	\$ 10,802
Change in other comprehensive income	2,005	1,619
Change in deferred tax due to change in comprehensive income	702	566
Transfer of loans to other real estate owned	11	1,970
Acquisition of noncash assets and liabilities:		
Assets acquired	18,411	0
Liabilities assumed	0	0

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

**Table of Contents****Consolidated Statement of Changes in Shareholders Equity***(dollars in thousands, except share information)*

	For the Six Months Ended June 30, 2011							Total Shareholders Equity
	Shares of Common Stock Issued	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		
Balance December 31, 2010	15,109,718	\$ 15,110	\$ 68,398	\$ 114,548	\$ (6,757)	\$ (29,881)	\$ 161,418	
Net income	0	0	0	9,521	0	0	9,521	
Dividends declared, \$0.15 per share	0	0	0	(3,725)	0	0	(3,725)	
Other comprehensive income, net of tax of \$702	0	0	0	0	1,303	0	1,303	
Stock based compensation	0	0	345	0	0	0	345	
Tax benefit from gains on stock option exercise	0	0	137	0	0	0	137	
Retirement of treasury stock	(4,936)	(5)	(43)	0	0	48	0	
Common stock issued:								
Acquisitions	321,929	322	6,339	0	0	0	6,661	
Dividend reinvestment and stock purchase plan	355,535	355	6,393	0	0	0	6,748	
Directors retainer	4,936	5	95	0	0	0	100	
Exercise of stock options	63,680	64	811	0	0	0	875	
Balance March 31, 2011	15,850,862	\$ 15,851	\$ 82,475	\$ 120,344	\$ (5,454)	\$ (29,833)	\$ 183,383	

*The accompanying notes are an integral part of the consolidated financial statements.***Consolidated Statements of Comprehensive Income***(dollars in thousands)*

	Three Months Ended June 30,	
	2011	2010
Net income	\$ 4,805	\$ 2,406
Other comprehensive (loss) income:		
Unrealized investment gains, net of tax \$667 and \$542, respectively	1,240	1,007
Change in unfunded pension liability, net of tax of \$125 and \$99, respectively	231	183
Total comprehensive income	\$ 6,276	\$ 3,596

*The accompanying notes are an integral part of the consolidated financial statements.**(dollars in thousands)*

	Six Months Ended June 30,	
	2011	2010
Net income	\$ 9,521	\$ 4,629
Other comprehensive (loss) income:		
Unrealized investment gains, net of tax \$441 and \$321, respectively	818	597
Change in unfunded pension liability, net of tax expense of \$261 and \$245, respectively	485	456

Total comprehensive income	\$ 10,824	\$ 5,682
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*The accompanying notes are an integral part of the consolidated financial statements.*

**Table of Contents****BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(Unaudited)****1. Basis of Presentation**

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to the financial services industry ( GAAP ). In the opinion of Bryn Mawr Bank Corporation s (the Corporation ) Management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and the results of operations for the interim periods presented have been included. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Corporation s 2010 Annual Report on Form 10-K (the 2010 Annual Report ). The Corporation s consolidated statements of financial condition and results of operations consist almost entirely of The Bryn Mawr Trust Company s (the Bank ) financial condition and results of operations.

The results of operations for the three and six months June 30, 2011 are not necessarily indicative of the results to be expected for the full year.

**2. Business Combinations****Private Wealth Management Group of the Hershey Trust Company**

On May 27, 2011, the acquisition of the Private Wealth Management Group ( PWMG ) of the Hershey Trust Company ( HTC ) by the Corporation (the Acquisition ) was completed. The consideration paid by the Corporation was \$18.4 million, of which \$8.2 million cash and 322,101 unregistered shares of the BMBC common stock, valued at \$6.7 million, were paid at closing, and \$3.6 million cash was placed in escrow to be paid in equal installments on the 6-, 12- and 18-month anniversaries of the date of the Acquisition, subject to certain post-closing contingencies relating to the assets under management.

The acquisition of PWMG increased the Corporation s Wealth Management Division assets under management by \$1.1 billion.

The acquisition of PWMG was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were 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 in the amount of \$5.7 million, which will not be amortizable, however will be deductible for tax purposes. The Corporation allocated the total balance of goodwill to its Wealth Management segment. The Corporation also recorded an \$8.6 million intangible asset for customer relationships, which will be amortized over a 15 year period using an accelerated method and a \$3.8 million intangible asset for restrictive covenant agreements, which will be amortized over a five-and-a-half year period using a straight-line method.

The fair values of the intangible assets listed below are estimates and are subject to adjustment; however, while they are not expected to be materially different than those shown; any adjustments to the estimates will be reflected, retroactively, as of the date of the Acquisition.

In connection with the 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:

<b>(dollars in thousands)</b>	
<b>Consideration paid:</b>	
Common shares issued (322,101 shares)	\$ 6,661
Cash paid	8,150
Cash placed in escrow	3,600
<b>Value of consideration</b>	<b>18,411</b>
<b>Assets acquired:</b>	
Intangible asset customer relationships	8,610
Intangible asset non-compete agreements	3,830

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Premises and equipment	250
Total assets	12,690
<b>Liabilities assumed: none</b>	
<b>Net assets acquired</b>	12,690
<b>Goodwill resulting from acquisition of PWMG</b>	<b>\$ 5,721</b>

**First Keystone Financial, Inc.**

The merger with First Keystone Financial, Inc. ( FKF ) was completed on July 1, 2010 (the Merger ). The Merger was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were 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 in the amount of \$9.5 million, which will not be amortizable and is not deductible for tax purposes. The Corporation allocated the total balance of goodwill recorded in connection with the Merger to its Banking segment. The Corporation also recorded \$2.1 million in core deposit intangibles which will be amortized over ten years using a declining balance method.

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The following table details the effect on goodwill of the changes in estimates of the fair values of the assets acquired and liabilities assumed from the amounts originally reported on the Form 10-Q for the period ended September 30, 2010:

Goodwill resulting from acquisition of FKF reported on Form 10-Q for the quarter ended September 30, 2010	\$ 10,370
Effect of adjustments to:	
Portfolio loans	250
Deferred tax asset	(311)
Other assets	(779)
Adjusted goodwill resulting from acquisition of FKF as of June 30, 2011	\$ 9,530

**Table of Contents****3. 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, computed pursuant to the treasury stock method that could occur if stock options were exercised and converted into common stock. The effects of stock options are excluded from the computation of diluted earnings per share in periods in which the effect would be anti-dilutive. 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.

(dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Numerator:</b>				
Net income available to common shareholders	\$ 4,805	\$ 2,406	\$ 9,521	\$ 4,629
<b>Denominator for basic earnings per share</b> weighted				
average shares outstanding	12,693,782	9,740,089	12,520,211	9,319,380
Effect of dilutive potential common shares	24,491	12,476	19,446	11,747
<b>Denominator for diluted earnings per share</b> adjusted				
weighted average shares outstanding	12,718,273	9,752,565	12,539,657	9,331,127
Basic earnings per share	\$ 0.38	\$ 0.25	\$ 0.76	\$ 0.50
Diluted earnings per share	\$ 0.38	\$ 0.25	\$ 0.76	\$ 0.50
Antidilutive shares excluded from computation of average dilutive earnings per share	675,386	854,996	685,364	907,196

**4. Investment Securities**

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

As of June 30, 2011

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. government agencies	\$ 124,933	\$ 712	\$ (51)	\$ 125,594
Obligations of state & political subdivisions	4,528	47		4,575
Mortgage-backed securities	109,468	1,793	(44)	111,217
Collateralized mortgage obligations	21,418	123	(4)	21,537
Corporate bonds	10,708	56	(12)	10,752
Investment certificates of deposit	2,441	3	(5)	2,439
Other debt securities	1,400			1,400
Total fixed income investments	274,896	2,734	(116)	277,514
Bond mutual funds	11,900	57	(3)	11,954
Equity securities	243	51		294
Total non-maturity investments	12,143	108	(3)	12,248
Total	\$ 287,039	\$ 2,842	\$ (119)	\$ 289,762

As of December 31, 2010

<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. Treasury	\$ 5,011	\$ 134	\$	\$ 5,145
Obligations of U.S. government agencies	156,301	704	(367)	156,638
Obligations of state & political subdivisions	32,013	358	(99)	32,272
Mortgage-backed securities	72,907	866	(246)	73,527
Collateralized mortgage obligations	2,068	30		2,098
Corporate bonds	10,803		(159)	10,644
Other debt securities	1,750			1,750
<b>Total fixed income investments</b>	<b>280,853</b>	<b>2,092</b>	<b>(871)</b>	<b>282,074</b>
Bond mutual funds	34,491	241	(10)	34,722
Equity securities	243	13		256
<b>Total non-maturity investments</b>	<b>34,734</b>	<b>254</b>	<b>(10)</b>	<b>34,978</b>
<b>Total</b>	<b>\$ 315,587</b>	<b>\$ 2,346</b>	<b>\$ (881)</b>	<b>\$ 317,052</b>



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The following table shows the amount of securities that were in an unrealized loss position:

**As of June 30, 2011**

(dollars in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. government agencies	\$ 20,214	\$ (51)	\$	\$	\$ 20,214	\$ (51)
Mortgage-backed securities	12,644	(44)			12,644	(44)
Collateralized mortgage obligations	2,091	(4)			2,091	(4)
Investment certificates of deposit	447	(5)			447	(5)
Corporate bonds	2,128	(12)			2,128	(12)
<b>Total fixed income investments</b>	<b>37,524</b>	<b>(116)</b>			<b>37,524</b>	<b>(116)</b>
Bond mutual funds	619	(3)			619	(3)
<b>Total</b>	<b>\$ 38,143</b>	<b>\$ (119)</b>	<b>\$</b>	<b>\$</b>	<b>\$ 38,143</b>	<b>\$ (119)</b>

The following table shows the amount of securities that were in an unrealized loss position:

**As of December 31, 2010**

(dollars in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. government agencies	\$ 46,027	\$ (367)	\$	\$	\$ 46,027	\$ (367)
Obligations of state & political subdivisions	10,158	(99)			10,158	(99)
Mortgage-backed securities	32,765	(246)			32,765	(246)
Corporate bonds	10,645	(159)			10,645	(159)
<b>Total fixed income investments</b>	<b>99,595</b>	<b>(871)</b>			<b>99,595</b>	<b>(871)</b>
Bond mutual funds	603	(10)			603	(10)
<b>Total</b>	<b>\$ 100,198</b>	<b>\$ (881)</b>	<b>\$</b>	<b>\$</b>	<b>\$ 100,198</b>	<b>\$ (881)</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 investment securities in the Corporation's investment portfolio are highly rated as investment grade. 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.

As of June 30, 2011, securities having a market value of \$128.2 million were specifically pledged as collateral for public funds, trust deposits, the Federal Reserve Bank of Philadelphia discount window program, Federal Home Loan Bank of Pittsburgh ( FHLB ) borrowings and other purposes. The FHLB has a blanket lien on non-pledged, mortgage-related loans and securities as part of the Bank's borrowing agreement with the

FHLB.

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The amortized cost and fair value of available for sale investment securities as of June 30, 2011, by contractual maturity, are shown below:

(dollars in thousands)	June 30, 2011	
	Amortized Cost	Fair Value
Due in one year or less	\$ 4,738	\$ 4,742
Due after one year through five years	64,040	64,323
Due after five years through ten years	59,340	59,730
Due after ten years	15,892	15,965
<b>Subtotal</b>	<b>144,010</b>	<b>144,760</b>
Mortgage-related securities	130,886	132,754
<b>Total available for sale securities</b>	<b>\$ 274,896</b>	<b>\$ 277,514</b>

Included in the investment portfolio, but not in the table above, are \$11.9 million of bond mutual funds and \$295 thousand of equity securities which have no stated maturity or constant stated coupon rate. 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.

**5. Loans and Leases****A. Loans and leases outstanding are detailed by category as follows:**

	June 30, 2011	December 31, 2010
Loans held for sale	\$ 5,923	\$ 4,838
Real estate loans:		
Commercial mortgage	\$ 404,000	\$ 385,615
Home equity lines and loans	210,477	216,853
Residential mortgage	280,093	261,983
Construction	55,804	45,403
<b>Total real estate loans</b>	<b>950,374</b>	<b>909,854</b>
Commercial and industrial	257,771	239,266
Consumer	12,116	12,200
Leases	33,187	35,397
<b>Total portfolio loans and leases</b>	<b>1,253,448</b>	<b>1,196,717</b>
<b>Total loans and leases</b>	<b>\$ 1,259,371</b>	<b>\$ 1,201,555</b>
Loans with predetermined rates	\$ 578,571	\$ 544,784
Loans with adjustable or floating rates	680,800	656,771
<b>Total loans and leases</b>	<b>\$ 1,259,371</b>	<b>\$ 1,201,555</b>
Net deferred loan origination costs included in the above loan table	\$ 452	\$ 378

**B. Components of the net investment in leases are detailed as follows:**

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<i>(dollars in thousands)</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Minimum lease payments receivable	\$ 37,213	\$ 39,711
Unearned lease income	(5,446)	(5,808)
Initial direct costs and deferred fees	1,420	1,494
 Total	 \$ 33,187	 \$ 35,397

**C. Troubled Debt Restructurings ( TDRs ):**

<i>(dollars in thousands)</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
TDRs included in nonperforming loans and leases	\$ 1,478	\$ 1,879
TDRs in compliance with modified terms	5,469	4,693
 Total TDRs	 \$ 6,947	 \$ 6,572

**Table of Contents****D. Non-Performing Loans and Leases<sup>(1)</sup>**

<i>(dollars in thousands)</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>Non-accrual loans and leases:</b>		
Commercial mortgage	\$ 1,685	\$ 1,911
Home equity lines and loans	2,485	987
Residential mortgage	2,904	4,411
Construction	6,225	202
Commercial and industrial	2,732	1,692
Consumer	2	15
Leases	95	279
<b>Total</b>	<b>\$ 16,128</b>	<b>\$ 9,497</b>
<b>Loans and leases 90 days or more past due and still accruing:</b>		
Consumer	\$	10
<b>Total</b>		<b>10</b>
<b>Total non-performing loans and leases</b>	<b>\$ 16,128</b>	<b>\$ 9,507</b>

<sup>(1)</sup> Purchased credit-impaired loans, which have been recorded at their fair values at the Merger date and which are performing, are excluded from this table, with the exception of \$524 thousand and \$785 thousand as of June 30, 2011 and December 31, 2010, respectively, of purchased credit-impaired loans which became non-performing subsequent to acquisition.

**E. Purchased Credit-Impaired Loans**

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

<i>(dollars in thousands)</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Outstanding principal balance	\$ 25,315	\$ 27,489
Carrying amount <sup>(1)</sup>	14,632	17,837

<sup>(1)</sup> Includes \$864 thousand and \$1.1 million of purchased credit-impaired loans as of June 30, 2011 and December 31, 2010, respectively, for which the Bank could not estimate the timing or amount of expected cash flows to be collected at the Merger date, and for which no accretable yield is recognized. Additionally, the table above includes \$524 thousand and \$785 thousand as of June 30, 2011 and December 31, 2010, respectively, of purchased credit-impaired loans that subsequently became non-performing, which are disclosed in Note 5D, 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 Bank applies ASC 310-30, for the six months ended June 30, 2011:

<i>(dollars in thousands)</i>	<b>Accretable Discount</b>
Balance, December 31, 2010	\$ 6,333

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Accretion	(604)
Reversals (early payoffs)	(162)
Transfer from non-accretable difference	1,065
Balance, June 30, 2011	\$ 6,632

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

The following tables present an aging of the Corporation's loan and lease portfolio as of June 30, 2011 and December 31, 2010:

<i>(dollars in thousands)</i>	<b>30 Days Past Due</b>	<b>59 Days Past Due</b>	<b>60 Days Past Due</b>	<b>89 Days Past Due</b>	<b>Over 89 Days Past Due</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans and Leases</b>	<b>Over 89 Days and Accruing</b>	<b>Delinquency %<sup>(1)</sup></b>
<b>As of June 30, 2011</b>										
Commercial mortgage	\$ 322	\$ 879		\$ 2,034	\$ 3,235	\$ 400,765	\$ 404,000	\$		0.80%
Home equity lines and loans	133			1,756	1,889	208,588	210,477			0.90%
Residential mortgage	1,927	279		2,007	4,213	275,880	280,093			1.50%
Construction			4,117	308	4,425	51,379	55,804			7.93%
Commercial and industrial	81	276		2,180	2,537	255,234	257,771			0.98%
Consumer	9	2		1	12	12,104	12,116			0.10%
Leases	104	125		65	294	32,893	33,187			0.89%
	\$ 2,576	\$ 5,678		\$ 8,351	\$ 16,605	\$ 1,236,843	\$ 1,253,448	\$		1.32%

<sup>(1)</sup> Delinquency % equals total past due divided by total loans and leases

<i>(dollars in thousands)</i>	<b>30 Days Past Due</b>	<b>59 Days Past Due</b>	<b>60 Days Past Due</b>	<b>89 Days Past Due</b>	<b>Over 89 Days Past Due</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans and Leases</b>	<b>Over 89 Days and Accruing</b>	<b>Delinquency %<sup>(1)</sup></b>
<b>As of December 31, 2010</b>										
Commercial mortgage	\$ 377	\$		\$ 1,854	\$ 2,231	\$ 383,384	\$ 385,615	\$		0.58%
Home equity lines and loans	958	981		988	2,927	213,926	216,853			1.35%
Residential mortgage	958	1,089		1,885	3,932	258,051	261,983			1.50%
Construction	1,730	201		1,931	1,931	43,472	45,403			4.25%
Commercial and industrial	1,467	68		1,344	2,879	236,387	239,266			1.20%
Consumer	21	3		23	47	12,153	12,200	10		0.39%
Leases	244	257		203	704	34,693	35,397			1.99%
	\$ 5,755	\$ 2,599		\$ 6,297	\$ 14,651	\$ 1,182,066	\$ 1,196,717	\$ 10		1.22%

<sup>(1)</sup> Delinquency % equals total past due divided by total loans and leases

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

The following tables detail the roll-forward of the Corporation's allowance for loan and lease losses, by loan category, for the three- and six months ended June 30, 2011:

<i>(dollars in thousands)</i>	<b>Commercial Mortgage</b>	<b>Home Equity Lines and Loans</b>	<b>Residential Mortgage</b>	<b>Construction</b>	<b>Commercial and Industrial</b>	<b>Consumer</b>	<b>Leases</b>	<b>Unallocated</b>	<b>Total</b>
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Balance, March 31, 2011	\$ 2,868	\$ 1,302	\$ 996	\$ 832	\$ 3,619	\$ 97	\$ 685	\$ 250	\$ 10,649
Charge-offs	(226)	(100)	(36)	(360)	(336)	(18)	(249)		(1,325)
Recoveries					1	3	94		98
Provision for loan and lease losses	(71)	274	286	937	335	47	108	3	1,919
Balance, June 30, 2011	\$ 2,571	\$ 1,476	\$ 1,246	\$ 1,409	\$ 3,619	\$ 129	\$ 638	\$ 253	\$ 11,341

<i>(dollars in thousands)</i>	Home Equity				Commercial and			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	(228)	(450)	(112)	(360)	(491)	(69)	(657)		(2,367)
Recoveries					3	5	221		229
Provision for loan and lease losses	265	363	515	1,136	542	78	308	(3)	3,204
Balance, June 30, 2011	\$ 2,571	\$ 1,476	\$ 1,246	\$ 1,409	\$ 3,619	\$ 129	\$ 638	\$ 253	\$ 11,341



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The following table details the roll-forward of the Corporation's allowance for loan and lease losses for the six months ended June 30, 2010:

*dollars in thousands)*

Balance, December 31, 2009	\$ 10,424
Charge-offs	(5,017)
Recoveries	327
Provision for loan and lease losses	4,107
Balance, June 30, 2010	\$ 9,841

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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 June 30, 2011 and December 31, 2010:

<i>(dollars in thousands)</i>	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
<b>As of June 30, 2011</b>									
Allowance on loans and leases:									
Individually evaluated for impairment	\$ 1	\$ 18	\$ 290	\$ 612	\$ 254	\$	\$ 16	\$	\$ 1,191
Collectively evaluated for impairment	2,570	1,458	956	794	3,365	129	622	253	10,147
Purchased credit-impaired <sup>(1)</sup>				3					3
Total	\$ 2,571	\$ 1,476	\$ 1,246	\$ 1,409	\$ 3,619	\$ 129	\$ 638	\$ 253	\$ 11,341
<b>As of December 31, 2010</b>									
Allowance on loans and leases:									
Individually evaluated for impairment	\$ 111	\$ 391	\$ 34	\$	\$ 56	\$	\$ 27	\$	\$ 619
Collectively evaluated for impairment	2,423	1,172	809	633	3,509	115	739	256	9,656
Purchased credit-impaired <sup>(1)</sup>									
Total	\$ 2,534	\$ 1,563	\$ 843	\$ 633	\$ 3,565	\$ 115	\$ 766	\$ 256	\$ 10,275

<sup>(1)</sup> Purchased credit-impaired loans are evaluated for impairment on an individual basis.

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 June 30, 2011 and December 31, 2010:

<i>(dollars in thousands)</i>	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
<b>As of June 30, 2011</b>								
Carrying value of loans and leases:								
Individually evaluated for impairment	\$ 1,629	\$ 2,520	\$ 7,330	\$ 6,169	\$ 2,569	\$ 2	\$ 854	\$ 21,073
Collectively evaluated for impairment	390,174	207,920	272,437	48,158	254,608	12,113	32,333	1,217,743
Purchased credit-impaired <sup>(1)</sup>	12,197	37	326	1,477	594	1		14,632
Total	\$ 404,000	\$ 210,477	\$ 280,093	\$ 55,804	\$ 257,771	\$ 12,116	\$ 33,187	\$ 1,253,448
<b>As of December 31, 2010</b>								

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Carrying value of loans and leases:

Individually evaluated for impairment	\$ 1,855	\$ 1,023	\$ 7,321	\$	\$ 1,836	\$ 25	\$ 1,356	\$ 13,416
Collectively evaluated for impairment	372,452	215,717	254,324	40,054	236,703	12,173	34,041	1,165,464
Purchased credit- impaired <sup>(1)</sup>	11,308	113	338	5,349	727	2		17,837
Total	\$ 385,615	\$ 216,853	\$ 261,983	\$ 45,403	\$ 239,266	\$ 12,200	\$ 35,397	\$ 1,196,717

<sup>(1)</sup> *Purchased credit-impaired loans are evaluated for impairment on an individual basis.*

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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 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 to be 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 June 30, 2011 and December 31, 2010:

(dollars in thousands)	Commercial Mortgage		Construction		Commercial and Industrial		Total	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
	Pass	\$ 394,523	\$ 373,098	\$ 43,011	\$ 36,230	\$ 251,873	\$ 232,717	\$ 689,407
Special Mention	3,422	9,141	2,488	6,486	1,043	4,969	6,953	20,596
Substandard	4,586	1,680	10,305	2,687	4,125	735	19,016	5,102
Doubtful <sup>(1)</sup>	1,469	1,696			730	845	2,199	2,541
<b>Total</b>	<b>\$ 404,000</b>	<b>\$ 385,615</b>	<b>\$ 55,804</b>	<b>\$ 45,403</b>	<b>\$ 257,771</b>	<b>\$ 239,266</b>	<b>\$ 717,575</b>	<b>\$ 670,284</b>

<sup>(1)</sup> Loans balances classified as *Doubtful* have been reduced by partial charge-offs, and are carried at their net realizable value.

<sup>(2)</sup> Internally assigned grades have been updated between January 1, 2011 and June 30, 2011.

(dollars in thousands)	Residential Mortgage		Home Equity Lines and Loans		Consumer		Leases		Total	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
	Performing	\$ 277,189	\$ 257,572	\$ 207,992	\$ 215,866	\$ 12,114	\$ 12,175	\$ 33,092	\$ 35,118	\$ 530,387

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Non-performing	2,904	4,411	2,485	987	2	25	95	279	5,486	5,702
Total	\$ 280,093	\$ 261,983	\$ 210,477	\$ 216,853	\$ 12,116	\$ 12,200	\$ 33,187	\$ 35,397	\$ 535,873	\$ 526,433

**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 periods indicated:

<i>(dollars in thousands)</i>	<b>Recorded Investment<sup>(2)</sup></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 three months ended June 30, 2011</b>						
Impaired loans with related allowance:						
Commercial mortgage	\$ 1,629	\$ 2,439	\$ 1	\$ 2,441	\$	\$
Home equity lines and loans	2,479	2,513	18	2,518	1	
Residential mortgage	6,593	6,699	290	6,695	107	
Construction	6,169	6,530	612	6,708		
Commercial and industrial	2,515	5,584	254	5,584	8	
Total	\$ 19,385	\$ 23,765	\$ 1,175	\$ 23,946	\$ 116	\$
Impaired loans without related allowance <sup>(1) (3)</sup> :						
Home equity lines and loans	\$ 41	\$ 44	\$	\$ 45	\$	\$
Residential mortgage	737	767		769		
Commercial and industrial	54	57		227		
Consumer	2	2		2		
Total	\$ 834	\$ 870	\$	\$ 1,043	\$	\$
Grand total	\$ 20,219	\$ 24,635	\$ 1,175	\$ 24,989	\$ 116	\$

<i>(dollars in thousands)</i>	<b>Recorded Investment<sup>(2)</sup></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 six months ended June 30, 2011</b>						
Impaired loans with related allowance:						
Commercial mortgage	\$ 1,629	\$ 2,439	\$ 1	\$ 2,442	\$	\$
Home equity lines and loans	2,479	2,513	18	2,520	8	
Residential mortgage	6,593	6,699	290	6,707	107	
Construction	6,169	6,530	612	6,760	73	
Commercial and industrial	2,515	5,584	254	5,597	27	
Total	\$ 19,385	\$ 23,765	\$ 1,175	\$ 24,026	\$ 215	\$
Impaired loans without related allowance <sup>(1) (3)</sup> :						
Home equity lines and loans	\$ 41	\$ 44	\$	\$ 45	\$	\$
Residential mortgage	737	767		773		
Commercial and industrial	54	57		227		
Consumer loans	2	2		2		
Total	\$ 834	\$ 870	\$	\$ 1,047	\$	\$
Grand total	\$ 20,219	\$ 24,635	\$ 1,175	\$ 25,073	\$ 215	\$

- (1) *The 2011 tables above do not include the recorded investment of \$854 thousand of impaired leases with a related \$16 thousand allowance for loan and lease losses.*
- (2) *Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal.*
- (3) *The table above excludes purchased credit-impaired loans, which are discussed in Note 5E, above.*

	<b>Recorded Investment<sup>(2)</sup></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 three months ended June 30, 2010</b>						
Impaired loans with related allowance	\$ 10,049	\$ 12,268	\$ 454	\$ 11,086	\$ 77	\$
<b>Total</b>	<b>\$ 10,049</b>	<b>\$ 12,268</b>	<b>\$ 454</b>	<b>\$ 11,086</b>	<b>\$ 77</b>	<b>\$</b>

	<b>Recorded Investment<sup>(2)</sup></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 six months ended June 30, 2010</b>						
Impaired loans with related allowance	\$ 10,049	\$ 12,268	\$ 454	\$ 11,101	\$ 104	\$
<b>Total</b>	<b>\$ 10,049</b>	<b>\$ 12,268</b>	<b>\$ 454</b>	<b>\$ 11,101</b>	<b>\$ 104</b>	<b>\$</b>

<sup>(1)</sup> *The 2010 tables above do not include the recorded investment of \$1.9 million of impaired leases without a related allowance for loan and lease losses.*

<sup>(2)</sup> *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****6. Deposits**

The following table details the components of deposits:

<i>(dollars in thousands)</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Non-interest-bearing demand	\$ 295,656	\$ 282,356
Savings, NOW and market rate accounts	702,097	696,094
Time deposits	242,683	245,669
Wholesale time deposits	31,818	37,201
Other wholesale deposits	65,185	80,112
	\$ 1,337,439	\$ 1,341,432

**7. Short-term and Other Borrowings****A. Short-term borrowings**

The Corporation's short-term borrowings (original maturity of one year or less) which consist of funds obtained from overnight repurchase agreements with commercial customers and overnight fed funds are detailed below.

A summary of short-term borrowings is as follows:

<i>(dollars in thousands)</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Overnight fed funds	\$	\$
Repurchase agreements	9,541	10,051
<b>Total short-term borrowings</b>	<b>\$ 9,541</b>	<b>10,051</b>

The following table sets forth information concerning short-term borrowings:

<i>(dollars in thousands)</i>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Balance at period-end	\$ 9,541	\$	\$ 9,541	\$
Maximum amount outstanding at any month-end	11,874		23,326	
Average balance outstanding during the period	9,260		9,705	249
Weighted-average interest rate:				
As of period-end	0.35%	0.00%	0.35%	0.00%
Paid during the period	0.26%	0.00%	0.25%	0.01%

**B. FHLB Advances and Other Borrowings**

The Corporation's other borrowings consist mainly of advances from the FHLB as well as a commercial mortgage on its Wealth Management Division's offices located in Bryn Mawr, Pennsylvania.

The following table presents the remaining periods until maturity of the FHLB advances and other borrowings:

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<i>(dollars in thousands)</i>	June 30, 2011	December 31, 2010
Within one year	\$ 33,058	\$ 63,680
Over one year through five years	96,058	72,980
Over five years through ten years	22,300	22,345
Over ten years	1,085	1,139
<b>Total</b>	<b>\$ 152,501</b>	<b>\$ 160,144</b>

The following table presents rate and maturity information on FHLB advances and other borrowings:

Description	Maturity Range*		Weighted Average Rate	Stated Interest Rate		Balance	
	From	To		From	To	June 30, 2011	December 31, 2010
Fixed amortizing	08/02/12	12/29/15	3.56%	3.15%	3.90%	\$ 14,237	\$ 19,028
Adjustable amortizing (commercial mortgage)	01/01/29	01/01/29	5.50%	5.50%	5.50%	1,974	2,000
Bullet maturity	09/08/11	05/19/16	2.72%	1.19%	4.12%	88,000	65,500
Convertible-fixed	12/11/12	08/20/18	2.01%	1.25%	2.62%	48,290	73,616
<b>Total</b>						<b>\$ 152,501</b>	<b>\$ 160,144</b>

\* Maturity range refers to June 30, 2011 balances

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Included in the table above as of June 30, 2011 and December 31, 2010 are \$48.3 million and \$73.6 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 June 30, 2011, substantially all the FHLB advances with this convertible feature are subject to conversion in fiscal 2011. 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**

As of June 30, 2011, the Corporation had a maximum borrowing capacity ( MBC ) with the FHLB of approximately \$630.8 million, of which the unused capacity was \$471.5 million. In addition, there were unused capacities of \$64.0 million in overnight federal funds line and \$66.2 million of Federal Reserve Discount Window borrowings as of June 30, 2011. 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 \$12.8 million at June 30, 2011, and \$14.2 million at December 31, 2010. The carrying amount of the FHLB stock approximates its redemption value. On December 23, 2008, the FHLB announced that it would voluntarily suspend the payment of dividends and the repurchase of excess capital stock until further notice. There were no dividends paid on FHLB stock during the three- and six- month periods ended June 30, 2011 and 2010 and limited repurchases of capital stock during the six months ended June 30, 2011 and the twelve months ended December 31, 2010.

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. The Corporation regularly reviews financial statements filed by the FHLB. The most recent financial information available as of July 28, 2011 indicates net income of \$12.7 million for the second quarter of 2011. In addition, credit-related other-than-temporary impairments have declined significantly for the three months ended June 30, 2011, as compared to the same period in 2010. Management believes that these indicators, as well as the fact that the FHLB has recently resumed redemption of its capital stock, support the Corporation s assessment that its investment in FHLB capital stock is not other-than-temporarily impaired.

**8. Stock Based Compensation**

**A. General Information**

The Corporation permits the issuance of stock options, dividend equivalents, performance awards, stock appreciation rights, restricted stock and/or restricted stock units to employees and directors of the Corporation under several plans. 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 ( 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 ( RSAs ) and performance stock awards ( PSAs ).

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The fair value of the RSAs is based on the closing price on the day preceding the date of the grant.

The PSAs that have been granted to-date vest based on the Corporation's total shareholder return relative to the performance of the NASDAQ Community Bank Index for the respective period. The amount of PSAs earned will not exceed 100% of the PSAs awarded. The fair value of the PSAs is calculated using the Monte Carlo Simulation method.

**B. Other Stock Option Information**

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. The fair value of stock option grants is determined using the Black-Scholes pricing model. The assumptions necessary for the calculation of the fair value are expected life of options, annual volatility of stock price, risk free interest rate and annual dividend yield.

The following table provides information about options outstanding for the three-months ended June 30, 2011:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Options outstanding March 31, 2011	939,440	\$ 20.07	\$ 4.45
Granted			
Forfeited	(8,490)	20.78	4.77
Exercised	(22,410)	15.06	2.93
Options outstanding June 30, 2011	908,540	\$ 20.19	\$ 4.48

The following table provides information about options outstanding for the six-months ended June 30, 2011:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Options outstanding December 31, 2010	993,710	\$ 19.82	\$ 4.38
Granted			
Forfeited	(21,490)	22.23	5.27
Exercised	(63,680)	13.74	2.66
Options outstanding June 30, 2011	908,540	\$ 20.19	\$ 4.48

The following table provides information about unvested options for the three-months ended June 30, 2011:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Unvested options March 31, 2011	249,574	\$ 20.72	\$ 4.76
Granted			
Vested			
Forfeited	(8,490)	20.78	4.77
Unvested options June 30, 2011	241,084	\$ 20.71	\$ 4.76

The following table provides information about unvested options for the six-months ended June 30, 2011:

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	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested options December 31, 2010	249,574	\$ 20.72	\$ 4.76
Granted		\$	
Vested		\$	
Forfeited	(8,490)	\$ 20.78	4.77
Unvested options June 30, 2011	241,084	\$ 20.71	\$ 4.76

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For the three months ended June 30, 2011, the Corporation recognized \$86 thousand of expense related to the stock options. For the six months ended June 30, 2011, the Corporation recognized \$181 thousand of expense related to the stock options. As of June 30, 2011, the total not-yet-recognized compensation expense of unvested stock options is \$763 thousand. This expense will be recognized over a weighted average period of 2.20 years.

Proceeds, related tax benefits realized from options exercised and intrinsic value of options exercised during the three and six months ended June 30, 2011 and 2010 are detailed below:

<i>(dollars in thousands)</i>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Proceeds from exercise of stock options	\$ 338	\$ 98	\$ 875	\$ 172
Related tax benefit recognized	28	17	137	46
<b>Net proceeds of options exercised</b>	<b>\$ 366</b>	<b>\$ 115</b>	<b>\$ 1,012</b>	<b>\$ 218</b>
Intrinsic value of options exercised	\$ 122	\$ 72	\$ 433	\$ 121

The following table provides information about options outstanding and exercisable at June 30, 2011:

	<b>Outstanding</b>	<b>Exercisable</b>
Number of shares	908,540	667,456
Weighted average exercise price	\$ 20.19	\$ 20.00
Aggregate intrinsic value	\$ 879,724	\$ 621,576
Weighted average contractual term in years	4.7	3.8

**C. Restricted Stock Awards**

The Corporation has granted RSAs and PSAs under the 2007 LTIP and 2010 LTIP Plans.

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, accelerated for retirement eligibility. Stock restrictions are subject to alternate vesting for death and disability and retirement.

During the six months ended June 30, 2011, the Corporation granted nine thousand shares of RSAs at a grant price of \$17.50. The award is subject to a three-year cliff-vesting period and is contingent on achievement of specific performance goals.

During the three months ended June 30, 2011, no shares of RSAs were granted.

For the three- and six months ended June 30, 2011, the Corporation recognized \$26 thousand and \$49 thousand of expense related to the Corporation's RSAs, respectively. As of June 30, 2011, there was \$283 thousand of unrecognized compensation cost related to RSAs. This cost will be recognized over a weighted average period of 2.85 years.

The following table details the RSAs for the three- and six month periods ended June 30, 2011:

	<b>Three Months Ended June 30, 2011</b>		<b>Six Months Ended June 30, 2011</b>	
	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>

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Beginning balance	20,920	\$ 17.09	11,920	\$ 16.78
Granted			9,000	17.50
Vested				
Forfeited				
Ending balance	20,920	\$ 17.09	20,920	\$ 17.09

For the three- and six month periods ended and as of June 30, 2010, there were no grants, vestings, forfeitures or outstanding shares of RSAs.

The compensation expense for PSAs is measured based on the grant date fair value as calculated using the Monte Carlo Simulation. The Simulation used various assumptions that include expected volatility of 54.8%, a risk free rate of return of 0.74% and a correlation co-efficient of 0.56%

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For the three- and six months ended June 30, 2011, the Corporation recognized \$56 thousand and \$114 thousand of expense related to the PSAs, respectively. As of June 30, 2011, there was \$368 thousand of unrecognized compensation cost related to PSAs. This cost will be recognized over a weighted average period of 2.35 years.

The following table details the PSAs for the three and six month periods ended June 30, 2011:

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Beginning balance	60,267	\$ 9.64	60,267	\$ 9.64
Granted				
Vested				
Forfeited	(1,400)	9.64	(1,400)	9.64
Ending balance	58,867	\$ 9.64	58,867	\$ 9.64

For the three and six month periods ended and as of June 30, 2010, there were no grants, vestings, forfeitures or outstanding shares of PSAs.



**Table of Contents****9. Pension and Other Post-Retirement Benefit Plans**

The Corporation sponsors two pension plans; the qualified defined benefit pension plan ( QDBP ) and the non-qualified defined benefit pension plan ( SERP ). In addition, the Corporation also sponsors a post-retirement benefit plan ( PRBP ).

On February 12, 2008, the Corporation amended the QDBP to cease further accruals of benefits effective March 31, 2008, and amended the 401(K) Plan to provide for a new class of immediately vested discretionary, non-matching employer contributions effective April 1, 2008. Additionally, the Corporation amended the SERP to expand the class of eligible participants to include certain officers of the Bank and to provide that each participant's accrued benefit shall be reduced by the actuarially equivalent value of the immediately vested discretionary, non-matching employer contribution to the 401(K) Plan made on his or her behalf.

The following table provides a reconciliation of the components of the net periodic benefits cost (benefit) for the three- and six months ended June 30, 2011 and 2010:

<i>(dollars in thousands)</i>	Three Months Ended June 30,					
	SERP		QDBP		PRBP	
	2011	2010	2011	2010	2011	2010
Service cost	\$ 116	\$ 46	\$	\$ 12	\$	\$
Interest cost	52	56	421	430	12	13
Expected return on plan assets			(555)	(489)		
Amortization of transition obligation					6	6
Amortization of prior service costs	21	22			(14)	(35)
Amortization of net (gain) loss		7	200	191	19	19
Net periodic benefit cost	\$ 189	\$ 131	\$ 66	\$ 144	\$ 23	\$ 3

<i>(dollars in thousands)</i>	Six Months Ended June 30,					
	SERP		QDBP		PRBP	
	2011	2010	2011	2010	2011	2010
Service cost	\$ 157	\$ 92	\$	\$ 24	\$	\$
Interest cost	104	112	842	860	24	26
Expected return on plan assets			(1,110)	(978)		
Amortization of transition obligation					13	12
Amortization of prior service costs	42	44			(28)	(70)
Amortization of net (gain) loss		14	400	382	38	38
Net periodic benefit cost	\$ 303	\$ 262	\$ 132	\$ 288	\$ 47	\$ 6

**QDBP:** As stated in the Corporation's 2010 Annual Report, the Corporation did not have any minimum funding requirements for its QDBP for 2010. As of June 30, 2011, no contributions were made to the QDBP.

**SERP:** The Corporation contributed \$37 thousand and \$73 thousand during the three and six months ended June 30, 2011 and it is expected to contribute an additional \$75 thousand to the SERP plan for the remaining six months of 2011.

**PRBP:** In 2005, the Corporation capped the maximum annual payment under the PRBP at 120% of the 2005 benefit. This maximum was reached in 2008 and the cap is not expected to be increased above this level.

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**10. Segment Information**

The Corporation aggregates certain of its operations and has identified four segments as follows: Banking, Wealth Management, Mortgage Banking, and All Other.

Segment information for the three and six month periods ended June 30, 2011 and 2010 is as follows:

<i>(dollars in thousands)</i>	2011					2010				
	Banking	Wealth Management	Mortgage Banking	All Other	Consolidated	Banking	Wealth Management	Mortgage Banking	All Other	Consolidated
Net interest income(expense)	\$ 16,101	\$ 2	\$ (7)	\$ (297)	\$ 15,799	\$ 11,077	\$ 2	\$ (28)	\$ (28)	\$ 11,051
Less loan loss provision	1,919				1,919	994				994
Net interest income (expense) after loan loss provision	14,182	2	(7)	(297)	13,880	10,083	2	(28)	(28)	10,057
Other income:										
Fees for wealth management services		5,075			5,075		3,898			3,898
Service charges on deposit accounts	615				615	488				488
Loan servicing and other fees	50		410		460	38		341		379
Net gain on sale of loans			656		656			606		606
Net loss on sale of OREO	(88)		(22)		(110)					
Other operating income	1,384	3	9	73	1,469	457	8	43	11	519
Total other income	1,961	5,078	1,053	73	8,165	983	3,906	990	11	5,890
Other expenses:										
Salaries and wages	4,252	1,952	260	236	6,700	3,186	1,742	266	151	5,345
Employee benefits	1,089	467	59	(24)	1,591	929	442	30	(37)	1,364
Occupancy and equipment	1,815	239	43	(46)	2,051	1,255	204	49	(50)	1,458
Due diligence and merger-related expenses	174				174	637				637
Other operating expenses	3,658	722	496	(523)	4,353	2,487	457	515	(160)	3,299
Total other expenses	10,988	3,380	858	(357)	14,869	8,494	2,845	860	(96)	12,103
Segment profit (loss)	5,155	1,700	188	133	7,176	2,572	1,063	130	79	3,844
Intersegment pretax (revenues) expenses*	634	29	10	(673)		72	24	10	(106)	
Pre-tax segment profit after eliminations	\$ 5,789	\$ 1,729	\$ 198	\$ (540)	\$ 7,176	\$ 2,644	\$ 1,087	\$ 140	\$ (27)	\$ 3,844
% of segment (loss) pre-tax profit (loss) after eliminations	80.7%	24.1%	2.8%	(7.5)%	100.0%	68.8%	28.3%	3.6%	(0.7)%	100.0%
Period-end segment assets (in millions)	\$ 1,697	\$ 33	\$ 5	\$ 6	\$ 1,741	\$ 1,260	\$ 13	\$ 5	\$ 3	\$ 1,281

<i>(dollars in thousands)</i>	2011				2010			
	Banking	Consolidated	Banking	Consolidated	Banking	Consolidated	Banking	Consolidated

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		Wealth	Mortgage	All			Wealth	Mortgage	All	
		Management	Banking	Other			Management	Banking	Other	
Net interest income(expense)	\$ 31,800	\$ 4	\$ (4)	\$ (594)	\$ 31,206	\$ 22,220	\$ 4	\$	\$ (56)	\$ 22,168
Less loan loss provision	3,204				3,204	4,107				4,107
Net interest income (expense) after loan loss provision	28,596	4	(4)	(594)	28,002	18,113	4		(56)	18,061
Other income:										
Fees for wealth management services		9,265			9,265		7,729			7,729
Service charges on deposit accounts	1,195				1,195	990				990
Loan servicing and other fees	111		810		921	83		678		761
Net gain on sale of loans			1,054		1,054			1,131		1,131
Net loss on sale of OREO	(107)		(22)		(129)	(152)				(152)
Other operating income	2,897	8	47	117	3,069	2,412	19	100	59	2,590
Total other income	4,096	9,273	1,889	117	15,375	3,333	7,748	1,909	59	13,049
Other expenses:										
Salaries and wages	8,410	3,629	529	473	13,041	6,257	3,542	500	333	10,632
Employee benefits	2,341	935	104	(54)	3,326	1,993	912	62	(45)	2,922
Occupancy and equipment	3,796	441	85	(89)	4,233	2,636	398	103	(100)	3,037
Due diligence and merger-related expenses	481				481	985				985
Other operating expenses	7,024	1,170	819	(1,028)	7,985	4,848	855	849	(272)	6,280
Total other expenses	22,052	6,175	1,537	(698)	29,066	16,719	5,707	1,514	(84)	23,856
Segment profit (loss)	10,640	3,102	348	221	14,311	4,727	2,045	395	87	7,254
Intersegment pretax (revenues) expenses*	1,295	59	20	(1,374)		565	49	20	(634)	
Pre-tax segment profit after eliminations	\$ 11,935	\$ 3,161	\$ 368	\$ (1,153)	\$ 14,311	\$ 5,292	\$ 2,094	\$ 415	\$ (547)	\$ 7,254
% of segment (loss) pre-tax profit (loss) after eliminations	83.4%	22.1%	2.6%	(8.1)%	100.0%	72.9%	28.9%	5.7%	(7.5)%	100.0%
Period-end segment assets (in millions)	\$ 1,697	\$ 33	\$ 5	\$ 6	\$ 1,741	\$ 1,260	\$ 13	\$ 5	\$ 3	\$ 1,281

\* Inter-segment revenues consist of rental payments, insurance commissions and a management fee.

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Other segment information is as follows:

**Wealth Management Segment Activity**

(dollars in millions)	June 30, 2011	December 31, 2010
Total wealth assets under management, administration, supervision and brokerage	\$ 4,830	\$ 3,413

**Mortgage Segment Activity**

(dollars in thousands)	June 30, 2011	December 31, 2010
Mortgage loans serviced for others	\$ 595,196	\$ 605,485
Mortgage servicing rights	4,662	4,925

**Table of Contents****11. Mortgage Servicing Rights**

The following tables summarize the Corporation's activity related to mortgage servicing rights (MSRs) for the three and six months ended June 30, 2011 and 2010:

<i>(dollars in thousands)</i>	<b>Three Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
Balance, April 1	\$ 4,878	\$ 3,994
Additions	138	152
Amortization	(158)	(210)
Recovery		
Impairment	(196)	(177)
Balance, June 30	\$ 4,662	\$ 3,759
Fair value	\$ 5,348	\$ 4,189

<i>(dollars in thousands)</i>	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
Balance, January 1	\$ 4,925	\$ 4,059
Additions	268	327
Amortization	(327)	(409)
Recovery		
Impairment	(204)	(218)
Balance, June 30	\$ 4,662	\$ 3,759
Fair value	\$ 5,348	\$ 4,189

As of June 30, 2011, key economic assumptions and the sensitivity of the current fair value of MSRs to immediate 10 and 20 percent adverse changes in those assumptions are as follows:

<i>(dollars in thousands)</i>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
Fair value amount of MSRs	\$ 5,348	\$ 5,815
Weighted average life (in years)	5.3	5.6
Prepayment speeds (constant prepayment rate)*	14.2	13.0
Impact on fair value:		
10% adverse change	\$ (263)	\$ (265)
20% adverse change	\$ (505)	\$ (510)
Discount rate	10.25%	10.26%
Impact on fair value:		
10% adverse change	\$ (188)	\$ (210)
20% adverse change	\$ (364)	\$ (406)

\* Represents the weighted average prepayment rate for the life of the MSR asset.

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These assumptions and sensitivities are hypothetical and should be used with caution. 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 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****12. Goodwill and Other Intangibles**

The Corporation's goodwill and intangible assets related to the acquisitions of Lau Associates LLC ( Lau ) in July, 2008, FKF in July, 2010 and PWMG in May, 2011 are detailed below:

<i>(dollars in thousands)</i>	<b>Beginning Balance 1/1/11</b>	<b>Additions</b>	<b>Amortization</b>	<b>Ending Balance 6/30/11</b>	<b>Amortization Period</b>
Goodwill Lau	\$ 7,918	\$	\$	\$ 7,918	Indefinite
Goodwill FKF	9,530			9,530	Indefinite
Goodwill PWMG		5,721		5,721	Indefinite
Core deposit intangible	1,951		(167)	1,784	10 years
Customer relationships	4,473	8,610	(175)	12,908	15 to 20 years
Non compete agreement	400	3,830	(85)	4,145	5.5 to 15 years
Brand (trade name)	240			240	Indefinite
<b>Total</b>	<b>\$ 24,512</b>	<b>\$ 18,161</b>	<b>\$ (427)</b>	<b>\$ 42,246</b>	

The Corporation performed its annual review of goodwill and identifiable intangible assets at December 31, 2010 in accordance with ASC 350, Intangibles Goodwill and Other. For the six months ended June 30, 2011, the Corporation determined there were no events that would trigger impairment testing of goodwill and other intangible assets.

**13. Shareholders' Equity****Dividend**

During the second quarter of 2011, the Corporation declared and paid a regular quarterly dividend of \$0.15 per share. This payment totaled \$1.9 million, based on outstanding shares at May 10, 2011 of 12,552,523. On July 28, 2011, the Corporation's Board of Directors declared a regular quarterly dividend of \$0.15 per share payable September 1, 2011 to shareholders of record as of August 9, 2011.

**S-3 Shelf Registration Statement and Offerings Thereunder**

In June 2009, the Corporation filed a shelf registration statement (the Shelf Registration Statement) which allows the Corporation to raise additional capital through offers and sales of registered securities consisting of common stock, warrants to purchase common stock, stock purchase contracts 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, any amount of such securities in a dollar amount up to \$90,000,000, in the aggregate.

On May 18, 2010, through a registered direct stock offering under the Shelf Registration Statement, the Corporation issued 1,548,167 common shares, at a price of \$17.00 per share, raising \$24.6 million after deducting placement agent's fees and other offering expenses of \$1.7 million.

On July 20, 2009, the Corporation filed with the Securities and Exchange Commission a prospectus supplement in order to register 850,000 shares of its common stock, under the Shelf Registration Statement in connection with a Dividend Reinvestment and Stock Purchase Plan (the Plan). The Plan allows for the grant of a request for waiver ( RFW ) above the Plan 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.

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 six months ended June 30, 2011, the Corporation issued 355,535 shares and raised \$6.7 million through the Plan. As of June 30, 2011, there are 293,649 shares remaining for issuance under the Plan.

**14. Accounting for Uncertainty in Income Taxes**

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The Corporation recognizes the financial statement benefit of a tax position only after determining that the Corporation would be more likely than not to 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% likelihood of being realized upon settlement with the relevant tax authority.

The Corporation is subject to income taxes in the United States federal jurisdiction and multiple state jurisdictions. The Corporation is no longer subject to U.S. Federal income tax examination by taxing authorities for years before 2008.

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 the three and six months ended June 30, 2011. There were no reserves for uncertain income tax positions recorded during the three and six months ended June 30, 2011.



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### **15. Fair Value Measurement**

The following disclosures are made in conjunction with the application of fair value measurements.

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 generally include state and municipal securities, U.S. government agencies and mortgage backed securities, are reported at fair value. These securities are valued by an independent third party. The third party's evaluations are based on market data. They utilize evaluated 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 applications 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.

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 June 30, 2011 and December 31, 2010 that are recognized on the Corporation's balance sheet using fair value measurement determined based on the differing levels of input.

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Fair value of assets measured on a recurring basis as of June 30, 2011:

<i>(dollars in millions)</i>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets Measured at Fair Value on a Recurring Basis:</b>				
Available for sale investment securities:				
Obligations of the U.S. government agencies	\$ 125.6	\$	\$ 125.6	\$
Obligations of state & political subdivisions	4.6		4.6	
Mortgage-backed securities	111.2		111.2	
Collateralized mortgage obligations	21.5		21.5	
Corporate bonds	10.8		10.8	
Investment certificates of deposit	2.4		2.4	
Other equity investments	0.3	0.3		
Bond mutual funds	12.0	12.0		
Other debt securities	1.4		1.4	
<b>Total assets measured on a recurring basis at fair value</b>	<b>\$ 289.8</b>	<b>\$ 12.3</b>	<b>\$ 277.5</b>	<b>\$</b>
<b>Assets Measured at Fair Value on a Non-Recurring Basis</b>				
Mortgage servicing rights	\$ 2.3	\$	\$ 2.3	\$
Impaired loans and leases	19.0		19.0	
Other real estate owned ( OREO )	0.8		0.8	
<b>Total assets measured on a non-recurring basis at fair value</b>	<b>\$ 22.1</b>	<b>\$</b>	<b>\$ 22.1</b>	<b>\$</b>

Fair value of assets measured on a recurring basis as of December 31, 2010:

<i>(dollars in millions)</i>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets Measured at Fair Value on a Recurring Basis:</b>				
Available for sale investment securities:				
Obligations of the U.S. Treasury	\$ 5.1	\$ 5.1	\$	\$
Obligations of the U.S. government agencies	156.6		156.6	
Obligations of state & political subdivisions	32.3		32.3	
Mortgage-backed securities	73.5		73.5	
Collateralized mortgage obligations	2.1		2.1	
Corporate bonds	10.6		10.6	
Other equity investments	0.3	0.3		
Bond mutual funds	34.7	34.7		
Other debt securities	1.8		1.8	
<b>Total assets measured on a recurring basis at fair value</b>	<b>\$ 317.0</b>	<b>\$ 40.1</b>	<b>\$ 276.9</b>	<b>\$</b>
<b>Assets Measured at Fair Value on a Non-Recurring Basis</b>				
Mortgage servicing rights	\$ 0.7	\$	\$ 0.7	\$
Impaired loans and leases	12.5		12.5	
OREO	2.5		2.5	
<b>Total assets measured on a non-recurring basis at fair value</b>	<b>\$ 15.7</b>	<b>\$</b>	<b>\$ 15.7</b>	<b>\$</b>

During the three and six months ended June 30, 2011, net increases of \$744 thousand and \$557 thousand, respectively, were recorded in the Allowance as a result of adjusting the carrying value and estimated fair value on the impaired loans in the above tables.

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There have been no transfers between levels during the six months ended June 30, 2011.

### **Other Real Estate Owned and Other Repossessed Property:**

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 cost or fair value less cost 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 Corporation had \$811 thousand and \$2.5 million in OREO assets as of June 30, 2011 and December 31, 2010, respectively. OREO assets with a carrying value of \$1.5 million and \$1.6 million were sold during the three and six months ended June 30, 2011, respectively, with net losses of \$110 thousand and \$129 thousand for the three and six months ended June 30, 2011, respectively.

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### **16. 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 Available for Sale**

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. See Note 4 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 are 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 as contemplated in Note 5.

#### **Mortgage Servicing Rights**

The fair value of the MSR's for these periods was determined using a 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.

#### **Other Assets**

The carrying amount of accrued interest 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.



**Table of Contents****Short-term borrowings**

The carrying amount of short-term borrowings, which include overnight repurchase agreements and overnight fed funds, approximate their fair value.

**FHLB Advances and Other Borrowings**

The fair value of FHLB advances and other borrowings, which includes a commercial mortgage loan on the Corporation's Wealth Management building, is established using a discounted cash flow calculation that applies interest rates currently being offered on mid-term and long term borrowings with equivalent maturities.

**Subordinated Debentures**

The fair value of subordinated debentures is established using a discounted cash flow calculation that applies interest rates currently being offered on comparable borrowings.

**Junior Subordinated Debentures**

The carrying amounts reported in the balance sheet for junior subordinated debentures approximate their fair values, and are based in part on the call price of the instruments.

**Other Liabilities**

The carrying amounts of accrued interest payable, accrued taxes payable and other accrued payables approximate fair value.

**Off-Balance Sheet Commitments**

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.

The carrying amount and estimated fair value of the Corporation's financial instruments as of the dates indicated are as follows:

<i>(dollars in thousands)</i>	As of June 30, 2011		As of December 31 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 55,513	\$ 55,513	\$ 89,484	\$ 89,484
Investment securities AFS	289,762	289,762	317,052	317,052
Loans held for sale	5,923	5,986	4,838	4,874
Net portfolio loans and leases	1,242,107	1,266,276	1,186,442	1,204,056
Mortgage servicing rights	4,662	5,348	4,925	5,815
Other assets	24,171	24,171	25,853	25,853
<b>Total financial assets</b>	<b>\$ 1,622,138</b>	<b>\$ 1,647,056</b>	<b>\$ 1,628,594</b>	<b>\$ 1,647,134</b>
<b>Financial liabilities:</b>				
Deposits	\$ 1,337,439	\$ 1,338,651	\$ 1,341,432	\$ 1,342,294
Short-term borrowings	9,541	9,542	10,051	10,051
FHLB advances and other borrowings	152,501	155,917	160,144	163,693

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Subordinated debentures	22,500	21,472	22,500	22,732
Junior subordinated debentures	12,004	12,099	12,029	12,029
Other liabilities	23,359	23,359	24,174	24,174
Total financial liabilities	\$ 1,557,344	\$ 1,561,040	\$ 1,570,330	\$ 1,574,973

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### **17. New Accounting Pronouncements**

#### **FASB ASU No. 2011-02 Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring**

In April 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, (ASU 2011-02). The amendments in this ASU are effective for the first interim or annual period beginning on or after June 15, 2011, and are to be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, the Corporation may identify receivables that are newly considered impaired. Early adoption is permitted. The Corporation intends to adopt the methodologies prescribed by this ASU by the date required and is continuing to evaluate the impact of adoption of this ASU on its financial condition, results of operations, and disclosures.

#### **FASB ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements (Topic 860)**

On April 29, 2011, the FASB issued ASU No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements (Topic 860)*, which removes the collateral maintenance provision that is currently required when determining whether a transfer of a financial instrument is accounted for as a sale or a secured borrowing. The Corporation will adopt ASU No. 2011-03 in its consolidated financial statements in the first quarter of 2012. The Corporation is currently evaluating the impact of this standard on its financial condition, results of operations, and disclosures.

#### **FASB ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (Topic 820)**

On May 12, 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (Topic 820)*, which is a joint effort between the FASB and IASB to converge fair value measurement and disclosure guidance. The ASU permits measuring financial assets and liabilities on a net credit risk basis, if certain criteria are met. The ASU also increases disclosure surrounding company-determined market price (Level 3) financial instruments and also requires the fair value hierarchy disclosure of financial assets and liabilities that are not recognized at fair value in the statement of financial position, but are included in disclosures at fair value. The Corporation will adopt ASU No. 2011-04 in its consolidated financial statements in the first quarter of 2012. The Corporation is currently evaluating the impact of this standard on its financial condition, results of operations, and disclosures.

#### **FASB ASU No. 2011-05, Presentation of Comprehensive Income (Topic 220)**

On June 16, 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income (Topic 220)*, which requires companies to report total net income, each component of comprehensive income, and total comprehensive income on the face of the income statement, or as two consecutive statements. The components of comprehensive income will not be changed, nor does the ASU affect how earnings per share is calculated or reported. These amendments will be reported retrospectively upon adoption. The Corporation will adopt ASU No. 2011-05 in its consolidated financial statements in the first quarter of 2012. The Corporation is currently evaluating the impact of this standard on its financial condition, results of operations, and disclosures.



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**Table of Contents****ITEM 2 Management's Discussion and Analysis of Results of Operation and Financial Condition****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 provide wealth management, community banking, residential mortgage lending, insurance and business banking services to customers through seventeen full-service branches and seven limited-hour retirement community offices throughout the Montgomery, Delaware and Chester Counties of Pennsylvania. The Corporation 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**), NASDAQ, Federal Deposit Insurance Corporation (**FDIC**), the Federal Reserve Board and the Pennsylvania Department of Banking.

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

On May 27, 2011, the acquisition of the Private Wealth Management Group (**PWMG**) of the Hershey Trust Company (**HTC**) by the Corporation (the **Acquisition**) was completed. The acquisition of PWMG increased the Corporation's Wealth Management Division assets under management by \$1.1 billion.

**Acquisition of First Keystone Financial, Inc.**

The Corporation's merger with First Keystone Financial, Inc. (**FKF**), which was completed on July 1, 2010 (the **Merger**), is the primary cause of the increases in assets and liabilities between June 30, 2011 and June 30, 2010. The Merger, which included the acquisition of \$275 million of loans, \$101 million of investment securities, \$321 million of deposits and \$106 million of borrowings, as well as eight full-service branch locations, accounts for a significant portion of the increases in both income and expense items for the three and six months ended June 30, 2011, as compared to the same periods in 2010.

**Results of Operations**

The following is the Corporation's discussion and analysis of the significant changes in the financial condition, results of operations, capital resources and liquidity presented in the accompanying consolidated financial statements. The Corporation's consolidated financial condition and results of operations consist almost entirely 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.

**Critical Accounting Policies, Judgments and Estimates**

The accounting and reporting policies of the Corporation and its subsidiaries conform with U.S. generally accepted accounting principles (**GAAP**). All inter-company transactions are eliminated in consolidation and certain reclassifications are made when necessary to conform the previous year's financial statements to the current year's presentation. In preparing the consolidated financial statements, the Corporation 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.

The allowance for loan and lease losses 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, international events, 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, additional provisions for loan and lease losses 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.

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Other significant accounting policies are presented in Footnote 1 Summary of Significant Accounting Policies, in the Notes to the Consolidated Financial Statements in the Corporation's 2010 Annual Report.

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### **Executive Overview**

The following items highlight the Corporation's results of operations for the three and six months ended June 30, 2011, as compared to the same periods in 2010, and the changes in its financial condition as of June 30, 2011 compared to December 31, 2010. More detailed information related to these highlights can be found in the sections that follow.

### **Three Month Results**

Net income for the three months ended June 30, 2011 was \$4.8 million, or diluted earnings per share of \$0.38, an increase of \$2.4 million, or 99.8%, as compared to net income of \$2.4 million, or diluted earnings per share of \$0.25, for the same period in 2010.

Return on average equity ( ROE ) and return on average assets ( ROA ) for the three months ended June 30, 2011 were 11.02% and 1.12%, respectively, as compared to ROE and ROA of 8.10% and 0.77%, respectively, for the same period in 2010.

Tax-equivalent net interest income increased \$4.7 million, or 41.7%, to \$15.9 million for the three months ended June 30, 2011, as compared to \$11.2 million for the same period in 2010.

The provision for loan and lease losses (the Provision ) for the three months ended June 30, 2011 was \$1.9 million, an increase of \$925 thousand, or 93.1%, from the \$994 thousand recorded for the same period in 2010.

Non-interest income of \$8.2 million for the three months ended June 30, 2011 increased \$2.3 million, or 38.6%, as compared to \$5.9 million for the same period in 2010.

Non-interest expense of \$14.9 million for the three months ended June 30, 2011 increased \$2.8 million, or 22.9%, as compared to \$12.1 million for the same period in 2010.

Fees for Wealth Management services of \$5.1 million for the three months ended June 30, 2011 increased \$1.2 million, or 30.2%, as compared to \$3.9 million for the same period in 2010.

### **Six Month Results**

Net income for the six months ended June 30, 2011 was \$9.5 million, or diluted earnings per share of \$0.76, an increase of \$4.9 million, or 105.7%, as compared to net income of \$4.6 million, or diluted earnings per share of \$0.50, for the same period in 2010.

ROE and ROA for the six months ended June 30, 2011 were 11.32% and 1.12%, respectively, as compared to ROE and ROA of 8.33% and 0.76%, respectively, for the same period in 2010.

Tax-equivalent net interest income increased \$8.9 million, or 39.8%, to \$31.4 million for the six months ended June 30, 2011, as compared to \$22.5 million for the same period in 2010.

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The Provision for the six months ended June 30, 2011 was \$3.2 million, a decrease of \$903 thousand, or 22.0%, from the \$4.1 million recorded for the same period in 2010.

Non-interest income of \$15.4 million for the six months ended June 30, 2011 increased \$2.3 million, or 17.8%, as compared to \$13.1 million for the same period in 2010.

Non-interest expense of \$29.1 million for the six months ended June 30, 2011 increased \$5.2 million, or 21.8%, as compared to \$23.9 million for the same period in 2010.

Fees for Wealth Management services of \$9.3 million for the six months ended June 30, 2011 increased \$1.5 million, or 19.9%, as compared to \$7.7 million for the same period in 2010.

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**Changes in Financial Condition**

Total assets of \$1.74 billion as of June 30, 2011 increased \$9.0 million from \$1.73 billion as of December 31, 2010.

Shareholders' equity of \$183.4 million as of June 30, 2011 increased \$22.0 million from \$161.4 million as of December 31, 2010.

Total portfolio loans and leases as of June 30, 2011 were \$1.25 billion, an increase of \$56.7 million, or 4.7%, from the December 31, 2010 balance of \$1.20 billion.

Total non-performing loans and leases of \$16.1 million represented 1.29% of portfolio loans and leases as of June 30, 2011 as compared to \$9.5 million, or 0.79%, of portfolio loans and leases as of December 31, 2010.

The allowance for loan and lease losses (the Allowance) of \$11.3 million as of June 30, 2011 represented 0.90% of portfolio loans and leases as compared to \$10.3 million, or 0.86%, of portfolio loans and leases as of December 31, 2010.

Total deposits of \$1.34 billion as of June 30, 2011 remained relatively unchanged from the December 31, 2010 level.

Wealth Management assets under management, administration, supervision and brokerage as of June 30, 2011 were \$4.8 billion, an increase of \$1.4 billion from December 31, 2010.

**Key Performance Ratios**

Key financial performance ratios for the three and six months ended June 30, 2011 and 2010 are shown in the tables below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Return on average equity	11.02%	8.10%	11.32%	8.33%
Return on average assets	1.12%	0.77%	1.12%	0.76%
Efficiency ratio *	61.9%	71.4%	62.0%	67.9%
Tax equivalent net interest margin	4.01%	3.80%	4.02%	3.93%