

BRYN MAWR BANK CORP

Form 10-Q

November 10, 2008

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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 September 30, 2008**

**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 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
Common Stock, par value \$1

Outstanding at November 3, 2008
8,583,377

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**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES**

**FORM 10-Q**

**QUARTER ENDED September 30, 2008**

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Consolidated Statements of Income - Unaudited**

(dollars in thousands, except per share data)	Three months Ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
<b>Interest income:</b>				
Loans	\$ 11,971	\$ 12,582	\$ 35,502	\$ 36,233
Leases	1,474	917	4,234	1,850
Federal funds sold	57	65	135	112
Interest bearing deposits with banks	28	42	83	56
Investment securities	1,273	541	3,142	1,667
Total interest income	14,803	14,147	43,096	39,918
<b>Interest expense:</b>				
Savings, NOW, and market rate accounts	860	1,041	2,710	3,015
Time deposits	1,598	2,282	5,066	6,449
Wholesale deposits	1,304	1,630	4,540	3,183
Borrowed funds	1,345	495	3,173	1,682
Total interest expense	5,107	5,448	15,489	14,329
Net interest income	9,696	8,699	27,607	25,589
<b>Provision for loan and lease losses</b>	1,063		2,698	490
Net interest income after provision for loan and lease losses	8,633	8,699	24,909	25,099
<b>Non-interest income:</b>				
Fees for wealth management services	3,544	3,310	10,147	10,020
Service charges on deposit accounts	409	363	1,230	1,079
Loan servicing and other fees	298	276	913	833
Net gain on sale of loans	287	358	982	897
Net gain on sale of OREO				110
Net gain on sale of real estate				1,333
BOLI income		175	260	259
Net gain on sale of investments			222	
Interest rate floor income		46	268	
Other operating income	807	643	2,185	1,850
Total non-interest income	5,345	5,171	16,207	16,381
<b>Non-interest expenses:</b>				
Salaries and wages	5,278	4,536	14,289	12,565
Employee benefits	981	1,056	3,260	3,334
Occupancy and bank premises	778	739	2,243	2,137
Furniture, fixtures, and equipment	578	522	1,692	1,542
Advertising	265	237	759	908
Amortization of mortgage servicing rights	102	88	316	257
FDIC insurance	120	19	334	60

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Intangible asset expense	64		64	
Professional fees	426	342	1,109	1,213
Other operating expenses	1,556	1,241	4,164	3,952
Total non-interest expenses	10,148	8,780	28,230	25,968
Income before income taxes	3,830	5,090	12,886	15,512
<b>Income taxes</b>	1,575	1,635	4,568	4,990
Net income	2,255	\$ 3,455	\$ 8,318	\$ 10,522
Basic earnings per share	\$ 0.26	\$ 0.41	\$ 0.97	\$ 1.23
Diluted earnings per share	\$ 0.26	\$ 0.40	\$ 0.97	\$ 1.22
Dividends declared per share	\$ 0.14	\$ 0.13	\$ 0.40	\$ 0.37
Weighted-average basic shares outstanding	8,575,904	8,520,843	8,560,566	8,545,828
Dilutive potential common shares	35,428	76,385	31,892	103,315
Weighted-average dilutive shares	8,611,332	8,597,228	8,592,458	8,649,143

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

**Table of Contents****BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Consolidated Balance Sheets - Unaudited**

(dollars in thousands, except per share data)	September 30, 2008	December 31, 2007
<b>Assets</b>		
Cash and due from banks	\$ 52,124	\$ 76,965
Interest bearing deposits with banks	11,413	1,209
Federal funds sold	6,000	17,000
Total cash and cash equivalents	69,537	95,174
Investment securities available for sale, at fair value (amortized cost of \$120,347 and \$48,236 as of September 30, 2008 and December 31, 2007, respectively)	117,220	48,402
Loans held for sale	1,987	5,125
Portfolio loans and leases	878,194	802,925
Less: Allowance for loan and lease losses	(9,014)	(8,124)
Net portfolio loans and leases	869,180	794,801
Premises and equipment, net	20,305	16,952
Accrued interest receivable	4,286	4,316
Deferred income taxes	4,585	2,891
Mortgage servicing rights	2,853	2,820
Bank owned life insurance receivable	15,585	15,424
Intangible assets	5,806	
Other assets	21,020	16,191
Total assets	\$ 1,132,364	\$ 1,002,096
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing demand	\$ 152,304	\$ 228,269
Savings, NOW and market rate accounts	340,352	287,977
Wholesale deposits	154,771	129,820
Time deposits	208,890	203,462
Total deposits	856,317	849,528
Borrowed funds	147,414	45,000
Subordinated debt	15,000	
Accrued interest payable	4,704	6,294
Other liabilities	14,807	10,923
Total liabilities	1,038,242	911,745
<b>Shareholders' equity</b>		
Common stock, par value \$1; authorized 100,000,000 shares as of September 30, 2008 and December 31, 2007 respectively; issued 11,503,382 and 11,434,332 shares as of September 30, 2008 and December 31, 2007 respectively and outstanding of 8,583,377 and 8,526,084 shares as of September 30, 2008 and December 31, 2007, respectively	11,503	11,434
Paid-in capital in excess of par value	12,803	11,698
Accumulated other comprehensive income, net of taxes	(6,315)	(4,304)
Retained earnings	106,039	101,146

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	124,030	119,974
Less: Common stock in treasury at cost 2,920,005, and 2,908,248 shares as of September 30, 2008 and December 31, 2007 respectively	(29,908)	(29,623)
Total shareholders' equity	94,122	90,351
Total liabilities and shareholders' equity	\$ 1,132,364	\$ 1,002,096
Book value per share	\$ 10.97	\$ 10.60
Tangible book value per share	\$ 10.29	\$ 10.60

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

**Table of Contents****BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows - Unaudited**

	Nine months ended September 30	
(dollars in thousands)	2008	2007
<b>Operating activities:</b>		
Net income	\$ 8,318	\$ 10,522
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	2,698	490
Provision for depreciation and amortization	1,396	1,188
Loans originated for resale	(57,223)	(69,363)
Proceeds from loans sold	61,343	68,228
Net gain on sale of loans	(982)	(897)
Net gain on sale of real estate		(1,333)
Provision for deferred income taxes (benefit)	(611)	(373)
Change in income tax payable/receivable	246	1,014
Change in accrued interest receivable	30	(99)
Change in accrued interest payable	(1,590)	226
Change in mortgage servicing rights, net	(33)	71
Amortization of intangible assets	64	
Other, net	(3,012)	(1,130)
Net cash provided by operating activities	10,644	8,544
<b>Investing activities:</b>		
Purchases of investment securities	(110,865)	(2,511)
Proceeds from sale of investment securities available for sale	21,004	
Proceeds from maturity of investment securities and mortgage-backed securities pay downs	8,642	7,233
Proceeds from calls of investment securities	9,000	
Proceeds from sale of real estate		1,850
Purchase of BOLI		(15,000)
Purchase of Lau Associates	(4,165)	
Net portfolio loan and lease originations	(77,077)	(94,253)
Net change in premises and equipment	(4,484)	(1,660)
Sale of other real estate owned ( OREO )		110
Net cash used by investing activities	(157,945)	(104,231)
<b>Financing activities:</b>		
Change in demand, NOW, savings and market rate deposit accounts	(23,590)	(81,207)
Change in time deposits	5,428	23,753
Change in wholesale deposits	24,951	64,589
Dividends paid	(3,425)	(3,162)
Increase in borrowed funds	102,414	53,500
Increase in subordinated debt	15,000	
Purchase of treasury stock	(285)	(2,419)
Tax benefit from exercise of stock options	173	168
Proceeds from exercise of stock options	998	792
Net cash provided by financing activities	121,664	56,014
Change in cash and cash equivalents	(25,637)	(39,673)

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Cash and cash equivalents at beginning of period	95,174	62,005
Cash and cash equivalents at end of period	\$ 69,537	\$ 22,332

## **Supplemental cash flow information:**

Cash paid during the year for:

Income taxes paid	\$ 4,732	\$ 4,188
Interest paid	\$ 17,079	\$ 14,103

## **Supplemental non-cash investing and financing activities:**

Change in other comprehensive income	3,094	(727)
Change in deferred taxes due to change in comprehensive income	(1,083)	255

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

**Table of Contents****BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income****Unaudited**

	<b>Three Months Ended September 30</b>	
<b>(dollars in thousands)</b>	<b>2008</b>	<b>2007</b>
Net income	\$ 2,255	\$ 3,455
Other comprehensive income:		
Unrealized investment (losses) gains net of tax benefit (expense) of \$602 and \$(163), respectively	(1,119)	304
Change in unfunded pension liability, net of tax (expense) of (\$1) and (\$150), respectively	2	281
<b>Total comprehensive income</b>	<b>\$ 1,138</b>	<b>\$ 4,040</b>

	<b>Nine months ended September 30</b>	
<b>(dollars in thousands)</b>	<b>2008</b>	<b>2007</b>
Net income	\$ 8,318	\$ 10,522
Other comprehensive income:		
Unrealized investment (losses) gains net of tax benefit (expense) of \$1,154 and \$(98), respectively	(2,140)	181
Change in unfunded pension liability, net of tax (expense) of (\$71) and (\$157), respectively	129	291
<b>Total comprehensive income</b>	<b>\$ 6,307</b>	<b>\$ 10,994</b>

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

**Table of Contents****BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements****September 30, 2008 and 2007****(Unaudited)****1. Basis of Presentation:**

The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. 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 period 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 2007 Annual Report on Form 10-K.** The Corporation's consolidated 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 month and nine month periods ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year.

Statements of the Financial Accounting Standards Board are noted in these statements by the abbreviation FAS. Staff Accounting Bulletins of the Securities and Exchange Commission (SEC) are noted by the abbreviation SAB.

**2. 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 antidilutive. All weighted average shares, actual shares and per share information in the financial statements have been adjusted retroactively for the effect of stock dividends and splits.

(dollars in thousands, except per share data)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
<b>Numerator:</b>				
Net income available to common shareholders	\$ 2,255	\$ 3,455	\$ 8,318	\$ 10,522
<b>Denominator for basic earnings per share</b> weighted average shares				
outstanding	8,575,904	8,520,843	8,560,566	8,545,828
Effect of dilutive potential common shares	35,428	76,385	31,892	103,315
<b>Denominator for diluted earnings per share</b> adjusted weighted average				
shares outstanding	8,611,332	8,597,228	8,592,458	8,649,143
Basic earnings per share	\$ 0.26	\$ 0.41	\$ 0.97	\$ 1.23
Diluted earnings per share	\$ 0.26	\$ 0.40	\$ 0.97	\$ 1.22
Antidilutive shares excluded from computation of average dilutive earnings per share	203,806	61,467	166,167	30,395

**3. Allowance for Loan and Lease Losses**

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The allowance for loan and lease losses is established through a provision for loan and lease losses charged as an expense. Loans and leases are charged against the allowance for loan and lease losses when Management believes that such amounts are uncollectible. The allowance for loan and lease losses is maintained at a level that Management believes is sufficient to absorb estimated probable credit losses. Note 1 Summary of Significant Accounting Policies Allowance for Loan and Lease Losses, included in the Corporation's 2007 Annual Report on Form 10K contains additional information relative to Management's determination of the adequacy of the allowance for loan and lease losses.

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The following summarizes the Corporation's impaired loans and leases for the periods ended:

(dollars in thousands)	For The Nine Months Ended		For The Twelve Months Ended
	September 30, 2008	September 30, 2007	December 31, 2007
Period end balance	\$ 1,465	\$ 625	\$ 574
Average period to date balance	1,129	479	504
Loans and leases with specific loss allowances			
Charge offs and recoveries			(23)
Loss allowances reserved			
Period to date income recognized	\$ 58	\$ 46	\$ 23

**5. Stock Based Compensation**

The Corporation adopted FAS No. 123R Share-Based Payments (FAS 123R) effective January 1, 2006. FAS 123R establishes accounting for stock-based awards exchanged for employee services. Accordingly, 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 Corporation previously applied Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations and provided the required pro forma disclosures of FAS No. 123, Accounting for Stock-Based Compensation (FAS 123).

Generally, the approach in FAS 123R to stock-based payment accounting is similar to FAS 123. However, FAS 123R requires all share-based payments, including grants of stock options, be recognized as compensation cost in the statement of income at their fair value. Pro forma disclosure for periods beginning after January 1, 2006 is not an alternative under FAS 123R.

The Corporation elected to adopt FAS 123R using the modified prospective application method in which compensation cost is recognized beginning with the effective date (a) based upon the requirements of FAS 123R for all share-based payments granted after the effective date, and (b) based on the requirements of FAS 123 for all awards granted prior to the effective date of FAS 123R that remain unvested on the effective date.

The Corporation's stock-based compensation expense for the nine months ended September 30, 2008 and 2007 was \$203 thousand and \$35 thousand, respectively.

The following table provides information about options outstanding for the three-months ended September 30, 2008:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Options outstanding June 30, 2008	795,300	\$ 18.78	\$ 4.11
Granted	130,514	24.27	5.27
Expired	1,750	19.89	4.39
Forfeited	1,250	22.00	4.90
Exercised	10,600	13.46	2.67
Options outstanding September 30, 2008	912,214	\$ 19.62	\$ 4.29

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The following table provides information about unvested options for the three-months ended September 30, 2008:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Unvested options June 30, 2008	136,042	\$ 22.09	\$ 5.01
Granted	130,514	24.27	5.27
Vested	25,800	22.00	4.90
Forfeited	1,000	22.00	4.90
Unvested options September 30, 2008	239,756	\$ 23.28	\$ 5.17

The following table provides information about options outstanding for the nine months ended September 30, 2008:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Options outstanding December 31, 2007	860,750	\$ 18.52	\$ 4.04
Granted	130,514	24.27	5.27
Expired	8,750	20.95	4.77
Forfeited	1,250	22.00	4.90
Exercised	69,050	14.45	2.94
Options outstanding September 30, 2008	912,214	\$ 19.62	\$ 4.29

The following table provides information about unvested options for the nine months ended September 30, 2008:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Unvested options December 31, 2007	139,584	\$ 22.10	\$ 5.04
Granted	130,514	24.27	5.27
Vested	29,092	22.07	5.03
Forfeited	1,250	22.00	4.90
Unvested options September 30, 2008	239,756	\$ 23.28	\$ 5.17

The total not-yet-recognized compensation expense of unvested stock options is \$1,126 thousand. This expense will be recognized over a weighted average period of 53 months.

Proceeds, related tax benefits realized from options exercised and intrinsic value of options exercised during the nine months ended September 30, 2008 and 2007 were as follows:

(dollars in thousands)	2008	2007
Proceeds from strike price of options exercised	\$ 998	\$ 792
Related tax benefit recognized	173	168

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Proceeds of options exercised	\$ 1,171	\$ 960
Intrinsic value of options exercised	\$ 457	\$ 481

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The following table provides information about options outstanding and exercisable options at September 30, 2008:

	Outstanding	Exercisable
Number	912,214	672,458
Weighted average exercise price	\$ 19.62	\$ 18.32
Aggregate intrinsic value (in millions)	\$ 3.291	\$ 3.184
Weighted average contractual term (in years)	6.22	5.08

For the nine months ended September 30, 2008 there were 130,514 options granted. The fair value of the option grants were determined at the date of grant using the Black Scholes Option Pricing Model and the following assumptions:

Expected average risk-free interest rate	3.39%
Expected average life (in years)	6.97
Expected volatility	21.91%
Expected dividend yield	2.29%
Fair value of option grant	\$ 5.27

## 6. 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 its 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 months ended September 30, 2008 and 2007:

	For Three months Ended September 30 (dollars in thousands)					
	SERP		QDBP		PRBP	
	2008	2007	2008	2007	2008	2007
Service cost	\$ 16	\$ 15	\$	\$ 313	\$	\$ 1
Interest cost	49	28	426	438	16	19
Expected return on plan assets			(635)	(637)		
Amortization of transition obligation					6	6
Amortization of prior service costs	33	11	78	20	(50)	(34)
Amortization of net (gain) loss		6		114	14	14
Net periodic benefit cost (benefit)	\$ 98	\$ 60	\$ (131)	\$ 248	\$ (14)	\$ 6

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The following table provides a reconciliation of the components of the net periodic benefits cost (benefit) for the nine months ended September 30, 2008 and 2007:

	For Nine months Ended September 30 (dollars in thousands)					
	SERP		QDBP		PRBP	
	2008	2007	2008	2007	2008	2007
Service cost	\$ 73	\$ 46	\$ 337	\$ 938	\$	\$ 3
Interest cost	147	85	1,275	1,314	48	57
Expected return on plan assets			(1,950)	(1,910)		
Amortization of transition obligation						19
Amortization of prior service costs	99	33	171	61	18	(103)
Amortization of net (gain) loss		19		343	(150)	43
Curtailment			18		42	
Settlement					153	
Net periodic benefit cost (benefit)	\$ 319	\$ 183	\$ (149)	\$ 746	\$ 111	\$ 19

**QDBP:** As stated in the Corporation's 2007 Annual Report, the Corporation does not have any minimum funding requirements for its QDBP for 2008. As of September 30, 2008 no contributions have been made to the QDBP.

**SERP:** The Corporation contributed \$101 thousand during the nine months ended September 30, 2008 to the SERP and it is expected to contribute an additional \$34 thousand for the balance of 2008.

**PRBP:** In 2007 the Corporation amended the PRBP to allow for settlement obligations to certain current and retired employees. Certain retired employee obligations were settled in 2007 and current employee obligations were settled during the quarter ended March 31, 2008. The Corporation contributed \$139 thousand to the PBRP in the first nine months of 2008 and expects to contribute an additional \$46 thousand for the balance of 2008.

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FAS No. 131, Segment Reporting (FAS 131), identifies operating segments as components of an enterprise which are evaluated regularly by the Corporation's Chief Executive Officer in deciding how to allocate resources and assess performance. The Corporation has applied the aggregation criterion set forth in FAS 131 to the results of its operations.

The Corporation has identified four segments as defined by FAS 131 as follows: Banking, Wealth Management, Mortgage Banking, and All Other as detailed in Footnote 23 Segment Information, in the Notes to the Consolidated Financial Statements in the Corporation's 2007 Annual Report to Shareholders. Lau Associates (as defined in footnote 12) activity from July 15, 2008 through September 30, 2008 is included in the Wealth Management Segment for the quarter and nine month periods ended September 30, 2008. Activity of the Corporation's Leasing Company is included in the Banking Segment for all periods presented. BMT Leasing, Inc. and Lau Associates do not meet the requirements of the FAS 131 at this time to report financial information as separate segments.

Segment information for the quarter ended September 30, 2008 is as follows:

(Dollars in thousands)

	Banking	Wealth Management	2008 Mortgage Banking	All Other	Consolidated
Net interest income	\$ 9,677	\$	\$ 16	\$ 3	\$ 9,696
Less: Loan and lease loss provision	1,063				1,063
Net interest income after loan and lease loss provision	8,614		16	3	8,633
Other income:					
Fees for wealth management services		3,544			3,544
Service charges on deposit accounts	409				409
Loan servicing and other fees	60		239	(1)	298
Net gain on sale of loans			287		287
Other income	725	5	28	49	807
Total other income	1,194	3,549	554	48	5,345
Other expenses:					
Salaries and wages	3,398	1,467	232	181	5,278
Employee benefits	644	295	28	14	981
Occupancy and bank premises	1,172	173	56	(45)	1,356
Other operating expense	2,050	402	174	(93)	2,533
Total other expense	7,264	2,337	490	57	10,148
Segment profit before income taxes	2,544	1,212	80	(6)	3,830
Intersegment pretax revenues (expenses)*	187	50	10	(247)	
Pretax segment profit (loss) after eliminations	\$ 2,731	\$ 1,262	\$ 90	\$ (253)	\$ 3,830
% of segment pretax profit (loss) after eliminations	71.3%	33.0%	2.3%	(6.6%)	100.0%

\* Intersegment revenues consist of rental payments, insurance commissions and a management fee.

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Segment information for the quarter ended September 30, 2007 is as follows:

(Dollars in thousands)

	Banking	Wealth Management	2007 Mortgage Banking	All Other	Consolidated
Net interest income	\$ 8,679	\$	\$ 17	\$ 3	\$ 8,699
Less: Loan and lease loss provision					
Net interest income after loan loss provision	8,679		17	3	8,699
Other income:					
Fees for wealth management services		3,310			3,310
Service charges on deposit accounts	363				363
Loan servicing and other fees	55		221		276
Net gain on sale of loans			358		358
BOLI income	175				175
Other operating income	573		54	62	689
Total other income	1,166	3,310	633	62	5,171
Other expenses:					
Salaries and wages	3,006	1,152	302	76	4,536
Employee benefits	791	211	44	10	1,056
Occupancy and bank premises	1,121	136	44	(40)	1,261
Other operating expense	1,545	242	213	(73)	1,927
Total other expense	6,463	1,741	603	(27)	8,780
Segment profit before income taxes	3,382	1,569	47	92	5,090
Intersegment pretax revenues (expenses)*	153	45	10	(208)	
Pretax segment profit (loss) after eliminations	\$ 3,535	\$ 1,614	\$ 57	\$ (116)	\$ 5,090
% of segment pretax profit (loss) after eliminations	69.5%	31.7%	1.1%	(2.3%)	100.0%

Segment information for the nine months ended September 30, 2008 is as follows:

(Dollars in thousands)

	Banking	Wealth Management	2008 Mortgage Banking	All Other	Consolidated
Net interest income	\$ 27,549	\$	\$ 52	\$ 6	\$ 27,607
Less: Loan and lease loss provision	2,698				2,698
Net interest income after loan and lease loss provision	24,851		52	6	24,909
Other income:					
Fees for wealth management services		10,147			10,147
Service charges on deposit accounts	1,230				1,230
Loan servicing and other fees	212		701		913
Net gain on sale of loans			982		982
BOLI income	260				260
Other income	2,405	5	125	140	2,675
Total other income	4,107	10,152	1,808	140	16,207
Other expenses:					

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Salaries and wages	9,298	3,885	728	378	14,289
Employee benefits	2,345	787	91	37	3,260
Occupancy and bank premises	3,489	419	163	(136)	3,935
Other operating expense	5,442	1,012	606	(314)	6,746
Total other expense	20,574	6,103	1,588	(35)	28,230
Segment profit before income taxes	8,384	4,049	272	181	12,886
Intersegment pretax revenues (expenses)*	581	140	20	(741)	
Pretax segment profit (loss) after eliminations	\$ 8,965	\$ 4,189	\$ 292	\$ (560)	\$ 12,886
% of segment pretax profit (loss) after eliminations	69.6%	32.5%	2.3%	(4.4)%	100.0%

\* Intersegment revenues consist of rental payments, insurance commissions and a management fee.

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Segment information for the nine months ended September 30, 2007 is as follows:

(Dollars in thousands)

	Banking	Wealth Management	2007 Mortgage Banking	All Other	Consolidated
Net interest income	\$ 25,513	\$	\$ 69	\$ 7	\$ 25,589
Less: Loan and lease loss provision	490				490
Net interest income after loan and lease loss provision	25,023		69	7	25,099
Other income:					
Fees for wealth management services		10,020			10,020
Service charges on deposit accounts	1,079				1,079
Loan servicing and other fees	94		739		833
Net gain on sale of loans			897		897
Net gain on sale of real estate	1,333				1,333
BOLI income	259				259
Other operating income	1,586		222	152	1,960
Total other income	4,351	10,020	1,858	152	16,381
Other expenses:					
Salaries and wages	8,333	3,359	673	200	12,565
Employee benefits	2,566	631	105	32	3,334
Occupancy and bank premises	3,264	413	121	(119)	3,679
Other operating expense	5,234	762	525	(131)	6,390
Total other expense	19,397	5,165	1,424	(18)	25,968
Segment profit (loss) before income taxes	9,977	4,855	503	177	15,512
Intersegment pretax revenues (expenses)*	472	135	30	(637)	
Pretax segment profit (loss) after eliminations	\$ 10,449	\$ 4,990	\$ 533	\$ (460)	\$ 15,512
% of segment pretax profit (loss) after eliminations	67.4%	32.2%	3.4%	(3.0%)	100.0%

\* Intersegment revenues consist of rental payments, insurance commissions and a management fee.

Other segment information for the quarter and year to date period ended September 30, 2008, September 30, 2007 and December 31, 2007 is as follows:

(dollars in millions)	September 30 2008	September 30 2007	December 31, 2007
<b>Wealth Management Segment:</b>			
Brokerage Assets <sup>(1)</sup>	\$ 86	\$ 95	\$ 85
Wealth Assets Under Management (Other Institution)		423	
Wealth Assets Under Management and Supervision (Lau Associates)	616		
Wealth Assets Under Management and Administration (BMTC)	1,964	2,252	2,192
Assets Under Management and Administration and Brokerage Assets	\$ 2,666	\$ 2,770	\$ 2,277
<b>Mortgage Banking Segment:</b>			

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Mortgage Loans Serviced for Others	\$ 354	\$ 365	\$ 357
Mortgage Servicing Rights	\$ 3	\$ 3	3

<sup>(1)</sup> Brokerage assets represent assets held at a registered broker dealer under a networking agreement.

**Banking Segment:** Substantially all of the assets of the Corporation and its subsidiaries are related to the Banking Segment and are reflected on the consolidated balance sheet in these financial statements, except for the \$5.8 million of intangible assets relating to the Lau Associates subsidiary, which is part of the Wealth Management Segment.

**Table of Contents****8. Mortgage Servicing Rights**

The following summarizes the Corporation's activity related to mortgage servicing rights (MSRs) for the nine months ended September 30, 2008 and 2007:

(dollars in thousands)	2008	2007
Balance, January 1	\$ 2,820	\$ 2,883
Additions	349	186
Amortization	(286)	(244)
Impairment	(30)	(13)
Balance, September 30	\$ 2,853	\$ 2,812
Fair value	\$ 3,731	\$ 4,049

At September 30, 2008 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:

(dollars in thousands)	September 30, 2008
Fair value amount of MSRs	\$ 3,731
Weighted average life (in years)	5.6
Prepayment speeds (constant prepayment rate)*:	11.80%
Impact on fair value:	
10% adverse change	\$ (521)
20% adverse change	\$ (656)
Discount rate:	10.11%
Impact on fair value:	
10% adverse change	\$ (496)
20% adverse change	\$ (608)

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

These assumptions and sensitivities are hypothetical and should be used with caution. As the table also indicates, 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 MSRs 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.

**9. Capital**

The Corporation declared and paid a regular dividend of \$0.14 per share, during the third quarter of 2008. This payment totaled \$1.2 million. The Corporation's Board of Directors declared a regular quarterly dividend of \$0.14 per share payable December 1, 2008 to shareholders of record as of November 10, 2008. During the first nine months of 2008, the Corporation repurchased 16,853 shares of its common stock for \$336 thousand at an average purchase price of \$19.94 per share.

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

The Corporation adopted FASB interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48) on January 1, 2007. As required by FIN 48, which clarifies FAS 109, 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

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settlement with the relevant tax authority. At January 1, 2007, the Corporation applied these criteria to all tax positions for which the statute of limitations remained open. There were no adjustments to retained earnings for unrecognized tax benefits as a result of the implementation of FIN 48 at adoption during 2007.

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 2004. The Corporation recently closed and settled with the Internal Revenue Service an examination of the 2005 tax year. Resolution of the examination did not have any material impact to the financial position of the Corporation.

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The Corporation's policy is to record interest and penalties on uncertain tax positions as income tax expense. No interest or penalties were accrued during the first nine months of 2008. There were no FIN48 liabilities accrued during 2007 or in the first nine months of 2008.

### 11. Fair Value Measurement

The following disclosures are made in conjunction with the initial application of FAS No. 157 Fair Value Measurements (FAS 157), in 2008.

FAS 157 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 includes 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 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 table summarizes the assets at September 30, 2008 that are recognized on the Corporation's balance sheet using fair value measurement determined based on the differing levels of input.

Fair Value Measurement at September 30, 2008		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(dollars in millions)	Total				
Cash and cash equivalents	\$ 69.5	\$ 69.5		\$	\$
Investments:					
U.S. government agency	15.8			15.8	
State and municipal	7.6			7.6	
Mortgage backed	74.8			74.8	
Corporate bond	7.9			7.9	
Other investments	11.1			11.1	
Total assets measured on a recurring basis at fair value	\$ 186.7	\$ 69.5		\$ 117.2	\$

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The provisions of FAS 157 related to disclosures surrounding non-financial assets and non-financial liabilities have not been applied because in February 2008, the FASB deferred the required implementation of these disclosures until 2009.

**Table of Contents****12. Acquisition of Lau Associates**

On July 15, 2008, Bryn Mawr Bank Corporation (BMBC) acquired JNJ Holdings LLC ( JNJ ), Lau Associates LLC ( Lau Associates ) and Lau Professional Services LLC (collectively Lau Associates ). BMBC acquired all of the issued and outstanding limited liability company membership interest in JNJ Holdings, a holding company that wholly owns Lau Associates, a financial planning and investment advisory firm, and Lau Professional Services, a tax preparation firm. The results of operations for Lau Associates for the 2 1/2 month period from July 15, 2008 to September 30, 2008 are included in the consolidated financial statements.

Lau Associates is a nationally recognized, independent, multi-family office serving high net worth individuals and families, with special expertise in planning intergenerational inherited wealth. The company had approximately \$487 million of assets under management and another \$129 million under supervision as of September 30, 2008. The acquisition provides strategic benefits offering complimentary products and services, as well as a shared tradition of values that BMBC anticipates will create long term value and growth for the organization. It is expected that the acquisition will help BMBC grow wealth assets under management and supervision, grow non-interest income and expand our footprint in the State of Delaware.

The transaction was valued at \$10.3 million for 100% of the Company. The valuation was based on 2007 pre-tax income of \$891 thousand with a multiplier of 11.5. The Corporation paid \$3.7 million in cash to Marigot Daze (the Seller of JNJ) on July 15, 2008 to acquire the assets and control of the Company.

The remaining value of the Company will contingently be paid in subsequent contingent payments over a 3 1/2 year earn-out period that includes 4 payments for the calendar years ending December 31, 2008 through 2011. The subsequent contingent earn-out payments for the additional purchase price will be made based upon pre-tax income for such calendar years at a rate of 32.5% for year ending 2008 and 11.7% for each of the years ending 2009, 2010 and 2011. The maximum purchase price will not exceed more than \$19 million. The December 2008 payment will be paid on December 31, 2008 based on an estimated 2008 projection of pre-tax income for the year and adjusting the final payment in the first quarter of 2009. Additional direct costs associated with the business combination (investment banking financial advisory fees, legal fees, accounting and auditing fees and professional advisory and consulting fees) amounted to \$465 thousand and were capitalized.

The following table summarizes the fair value of assets acquired and liabilities assumed on the date of acquisition. This transaction was accounted for using the purchase method of accounting.

<b>(dollars in thousands)</b>	
<b>Assets:</b>	
Cash	\$ 151
Intangible assets	5,870
Premises and equipment	61
Accounts receivable	24
Other assets	23
<b>Total assets</b>	<b>\$ 6,129</b>
<b>Liabilities &amp; Equity</b>	
Contingent payment liability	\$ 1,271
Deferred revenue	614
Deferred rent obligation	59
Other accrued liabilities	61
<b>Total liabilities</b>	<b>\$ 2,005</b>
<b>Equity</b>	<b>\$ 4,124</b>
<b>Total liabilities &amp; equity</b>	<b>\$ 6,129</b>



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The Corporation recorded a net contingent payment liability at acquisition after recording the purchase of the tangible assets, and the value of the intangible assets and liabilities and recording cash basis to accrual accounting adjustments. Future earn-out payments will first be applied to the balance in the contingent payment liability. After the recorded contingent payment liability is exhausted, future payments will be applied to goodwill.

The fair value measurement of assets was finalized at acquisition. The fair value of intangible assets and the related amortization schedule as of and for the period from acquisition through September 30, 2008 is as follows:

(dollars in thousands)	Gross Fair Value	Accumulated Amortization	Net Carrying Value	Amortization Period
Customer relationships (list)	\$ 5,100	\$ (53)	\$ 5,047	20 Years
Non compete agreement	530	(11)	519	10 Years
Brand (trade name)	240		240	Indefinite
Total	\$ 5,870	\$ (64)	\$ 5,806	

The Company expects amortization of intangible assets of \$308 thousand annually for each of the five succeeding years from 2009 to 2013 as the intangible assets will be amortized on a straight-line basis.

The following table summarizes the operating results of the Corporation had the acquisition of Lau Associates occurred on January 1, 2008 (Proforma 2007 year to date results presented for comparative purposes):

## Bryn Mawr Bank Corporation

## Proforma Results of Operation

(dollars in thousands)	For the Nine Months Ending September 30	
	2008	2007
Total interest income	\$ 43,096	\$ 39,918
Total interest expense	15,489	14,329
Provision for loan and lease losses	2,698	490
Total non-interest income	18,078	18,659
Total non-interest expense	29,594	27,642
Income before tax	13,393	16,116
Income tax	4,745	5,201
Net Income	\$ 8,648	\$ 10,914
Basic earnings per share	1.01	1.28
Diluted earnings per share	1.01	1.28

Proforma assumptions:

2008 Proforma results exclude amortization of intangible assets related to Lau Associates.

2007 Nine month results for Lau Associates were estimated based on 75% of the full year actual results.

Taxes on Lau Associates related income were calculated using 35%.

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### **13. BOLI**

On August 13, 2008, the Corporation gave notice to its BOLI insurance carrier that it was surrendering its separate account BOLI insurance contract. Under the terms of the insurance contract, the Corporation will receive the book value of its BOLI investment six months from date of surrender, net of certain ongoing management expenses of \$100 thousand. Additionally, the Corporation incurred an expense of \$266 thousand during the quarter ended September 30, 2008 in federal income taxes on the tax free buildup in the insurance contract. The Corporation will receive approximately \$15.6 million in cash in February 2009 which is recorded as a receivable on the balance sheet as of September 30, 2008. This receivable is due from the insurance company and the stable value wrap provider. As part of this surrender the Corporation has represented to the insurance carrier that it will not enter into any other BOLI arrangement or obtain life insurance on any of the employees covered by the BOLI policy for a five year period.

### **14. Subordinated Debt**

The Bank raised an aggregate of \$15 million in subordinated debt in July and August 2008. This subordinated debt has a floating interest rate, which resets quarterly at 90 day LIBOR plus 3.75 (6.55% at September 15, 2008), has a maturity of 10 years, and can be prepaid at the end of 5 years with no prepayment penalty. Subordinated debt qualifies as Tier II regulatory capital for the first five years from the date of issuance and thereafter is discounted as the subordinated debt approaches maturity, with one fifth of the original amount excluded from Tier II capital each year during the last five years before maturity. When the remaining maturity is less than one year, the subordinated debt is excluded from Tier II capital. Subordinated debt issuance costs of \$330 thousand are amortized over the term of the debt, as an adjustment to the yield. Interest is payable quarterly and principal is due September 15, 2018.

### **15. New Accounting Pronouncements**

#### **FAS 157**

In September 2006, the FASB issued FAS No. 157 Fair Value Measurements ( FAS 157 ). FAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The statement applies only to fair-value measurements that are already required or permitted by other accounting standards.

FAS 157 is effective for fair-value measures already required or permitted by other standards for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Corporation adopted FAS 157 effective January 1, 2008 and has determined that the adoption of this statement did not have a material impact on its consolidated financial statements. See Note 11 Fair Value Measurement.

#### **FAS 159**

In February 2007, the FASB issued FAS No. 159 The Fair Value Option for Financial Assets and Liabilities Including an Amendment of FASB Statement No. 115 ( FAS 159 ). FAS 159 permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings without having to apply complex hedge accounting provisions.

The Corporation adopted FAS 159 effective January 1, 2008 and determined that the adoption of this statement did not have a material impact on its consolidated financial statements upon adoption.

#### **FAS 160**

In December 2007 the FASB issued FAS No. 160 Noncontrolling Interest in Consolidated Financial Statements Including an Amendment of ARB No. 51 ( FAS 160 ). FAS 160 improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary.

FAS 160 is effective as of the beginning of an entity's first fiscal year that begins on or after December 15, 2008. Early adoption is prohibited. The Corporation has not yet determined whether this statement will have a material impact on the Corporation's consolidated financial statements upon adoption.



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### **FAS 161**

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133. SFAS No. 161 amends SFAS No. 133 and its related guidance by requiring expanded disclosures about derivative instruments and hedging activities. This statement will require us to provide additional disclosure about a) how and why we use derivative instruments; b) how we account for derivative instruments and related hedged items under SFAS No. 133 and its related interpretations; and c) how derivative instruments and related hedged items effect our financial condition, financial performance, and cash flows. SFAS No. 161 does not change the accounting for derivatives under SFAS No. 133.

SFAS No. 161 will be effective for us with the fiscal year and interim periods beginning January 1, 2009, with early adoption encouraged. The Corporation has not yet determined whether this statement will have a material impact on the Corporation's consolidated financial statements upon adoption.

### **FAS No. 141 (revised)**

In December 2007, FASB issued FAS No. 141 (revised 2007), *Business Combinations*. FAS No. 141 (revised) retains the fundamental requirement of FAS 141 that the acquisition method of accounting be used for all business combinations. However, FAS No. 141 (revised) does make significant changes to the accounting for a business combination achieved in stages, the treatment of contingent consideration, transaction and restructuring costs, and other aspects of business combination accounting. FAS No. 141 (revised) will be effective with the fiscal year that begins on January 1, 2009, and will change the Corporation's accounting treatment for business combinations on a prospective basis.

### **SAB No. 109**

In November 2007, the SEC issued SAB No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings*. SAB No. 109 supersedes SAB No. 105, *Loan Commitments Accounted for as Derivative Instruments*, and expresses the view that expected net future cash flows related to the servicing of loans should be included in the fair value measurement of all written loan commitments that are accounted for a fair value through earnings. SAB No. 109 retains the views in SAB No. 105 that internally developed intangible assets (such as client relationship intangible assets) should not be included in the fair value measurement of derivative loan commitments. SAB No. 109 became effective on January 1, 2008 and did not have a material effect on the Corporation's consolidated financial statements upon adoption.

### **SAB No. 110**

In December 2007, the SEC issued SAB No. 110, and extended, under certain circumstances, the availability of a simplified method for estimating the expected term of plain vanilla share options in accordance with SFAS No. 123 (revised). Since the Corporation does not use the simplified method to estimate the expected term of share options, the adoption of SAB No. 110 did not effect the Corporation's consolidated financial statements.

## **16. Subsequent Events**

On October 14, 2008 the United States Treasury, Federal Reserve Bank and FDIC announced in a joint statement details of the new government programs under the Emergency Economic Stabilization Act of 2008 (EESA). These programs are: The Trouble Asset Relief Program (TARP) and the FDIC Temporary Liquidity Program.

TARP was enacted by the Treasury Department under the EESA to solidify the financial services industry with a \$700 billion rescue package. On October 14, 2008, the Treasury Department allocated \$250 billion of the \$700 billion authorized, to buy equity stakes in financial institutions. Of the \$250 billion, \$125 billion was placed with 9 major financial institutions that agreed to participate which include: Goldman Sachs Group, Morgan Stanley, J.P. Morgan Chase, Bank of America, Merrill Lynch, Citigroup, Wells Fargo, Bank of New York Mellon and State Street. The remaining \$125 billion is available to smaller financial companies not to exceed 3% of risk weighted assets or approximately \$30 million for the Corporation as of September 30, 2008. Should the Corporation and the Bank apply and be accepted, the Corporation would need to issue non-voting warrants and senior preferred stock shares, comply with limits imposed on executive compensation, understand restrictions placed on increasing dividend payments, and obtain consent from the Treasury department before repurchasing its stock. The Corporation is still in the process of evaluating this program and has not made a decision on its participation. To participate, the Corporation must apply by November 14, 2008.



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Announced on October 14, 2008, the United States Treasury signed a systematic risk exception to the FDIC Act, to enable the FDIC to temporarily guarantee the non-interest bearing deposit transaction accounts and senior debt of all FDIC insured institutions and their holding companies. Non-interest bearing deposit transaction accounts under this program will have full insurance coverage guaranteed until December 31, 2009. All FDIC insured institutions will be immediately covered for the first thirty days at no charge. After the initial 30 days or December 5, 2008, institutions may elect to opt out of the program by giving notice to the FDIC. There will be an annualized service charge of 10 basis points on all deposit accounts not covered by the \$250,000 limit. The Corporation has made the decision not to opt out of this coverage.

The guarantee of newly issued senior debt is for all amounts issued before June 30, 2009 subject to certain limitations. This includes promissory notes, commercial paper and inter-bank funding. All FDIC insured institutions will be covered immediately under this program for the first thirty days at no charge. After 30 days or December 5, 2008, the institutions may elect to opt out. Institutions that elect to remain in the program will incur an annualized fee of 75 basis points on the amount of debt issued under this program. Coverage will be provided until June 30, 2012. The Corporation is still evaluating the particulars of this coverage and has not yet made a decision, as to its ability to opt out.

During the month of September 2008 and continuing through October 2008, volatility in the financial markets had a detrimental impact on the value of Wealth Management Assets under Management, Administration and Supervision. Since Wealth management revenue is directly correlated to the value of Wealth assets, the decline in the financial markets may possibly have a proportional detrimental impact on future Wealth Management revenues.

Additionally, assets in the Qualified Defined Benefit Plan ( QDBP ) have also been impacted by the volatility in the financial markets. Generally, when pension plan assets decrease, all other factors being equal, the decline will result in higher pension expenses in future years, along with the possible need to make additional cash contributions to the QDBP.

## **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, PA, a western suburb of Philadelphia, PA. The Corporation and its subsidiaries provide wealth management, community banking, residential mortgage lending, insurance, leasing and business banking services to its customers through eight full service branches and seven retirement community offices throughout Montgomery, Delaware and Chester counties. The Corporation trades on the NASDAQ Global 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 competes in a highly competitive market area and includes local, national and regional banks as competitors along with savings banks, credit unions, insurance companies, trust companies, registered investment advisors and mutual fund families. The Corporation and its subsidiaries are regulated by many regulatory agencies including the Securities and Exchange Commission ( SEC ), NASDAQ, Federal Deposit Insurance Corporation ( FDIC ), the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking.

### **Results of Operations**

The following is Management's discussion and analysis of the significant changes in the results of operations, capital resources and liquidity presented in its accompanying consolidated financial statements for the Corporation. 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. These interim financial statements are unaudited.

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

The accounting and reporting policies of the Corporation and its subsidiaries conform with accounting principles generally accepted in the United States of America (US GAAP) applicable to the financial services industry. All significant 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, Management is required to make estimates and assumptions that affect the reported amount of assets and liabilities as of the dates of the balance sheets and revenues and expenditures for the periods presented. Therefore, actual results could differ from these estimates.



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**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 Management to be sufficient to absorb estimated probable credit losses. Management'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 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 Management estimates, additional provisions for loan and lease losses may be required that would adversely impact earnings in future periods.

**Other significant accounting policies** are presented in Note 1 to the Corporation's audited consolidated financial statements filed as part of the 2007 Annual Report on Form 10-K and Footnotes 3, 10 and 11 to the Corporation's unaudited financial statements on pages 8, 17 and 18 of this Form 10-Q. There have been no material changes in assumptions or estimation techniques utilized as compared to prior periods.

## **Financial Services Overview   Recent Market Developments**

For more than a year, the national financial markets have been under considerable stress and in September 2008, the credit-market turmoil encompassed the broad economy. Volatility was abundant as the housing market declined, several banks and financial institutions failed, stock market returns were depressed and the economy slowed. Declines in the national housing market during the past year resulted in significant write-downs of asset values at many financial institutions, as home prices fell and foreclosures increased, however the Corporation's core market, the western suburbs of Philadelphia, fared much better.

Concerns over the stability of financial markets and strength of lenders and borrowers prompted the credit markets to tighten which decreased lending activities causing economic growth to stall. As the subprime mortgage-backed securities market collapsed, a flight to safety within the Treasury market occurred and many institutions became risk-averse. This combination of economic weaknesses put excessive pressure on the United States Federal Reserve. The Government's response was to ease monetary policy through interest rate cuts and the infusion of cash and credit into the financial system, through a variety of programs and initiatives. As the credit markets remained frozen and economic pressures persisted, a joint government program was established between the United States Treasury, the Federal Reserve Bank and the FDIC to try to keep the country's financial system from incurring further damage.

While the above scenario is not good, it should be noted that the country has experienced approximately 24 historical bear markets based on the Dow Jones Average since 1900. These bear markets have been of various lengths and severity, with their own unique facts and circumstances. On October 14, 2008 the United States Treasury, Federal Reserve Bank and FDIC announced in a joint statement the details of the new government programs under the Emergency Economic Stabilization Act of 2008 (EESA). These programs are: The Trouble Asset Relief Program (TARP) and the FDIC Temporary Liquidity Program.

TARP was enacted by the Treasury Department under the EESA to solidify the financial services industry with a \$700 billion rescue package. On October 14, 2008, the Treasury Department allocated \$250 billion of the \$700 billion authorized, to buy equity stakes in financial institutions. Of the \$250 billion, \$125 billion was placed with 9 major financial institutions that agreed to participate which include: Goldman Sachs Group, Morgan Stanley, J.P. Morgan Chase, Bank of America, Merrill Lynch, Citigroup, Wells Fargo, Bank of New York Mellon and State Street. The remaining \$125 billion is available to smaller financial companies not to exceed 3% of risk weighted assets or approximately \$30 million for the Corporation as of September 30, 2008. Should the Corporation and the Bank apply and be accepted, the Corporation would need to issue shares of preferred stock and non-voting warrants exercisable for the purchase of additional shares of the Corporation's common stock and senior preferred stock shares, comply with limits imposed on executive compensation, understand restrictions placed on increasing dividend payments, and obtain consent from the Treasury department before repurchasing its stock. The Corporation is still in the process of evaluating this program and has not made a decision on its participation. To participate, the Corporation must apply by November 14, 2008.

The United States Treasury signed a systematic risk exception to the FDIC Act, to enable the FDIC to temporarily guarantee the non-interest bearing deposit transaction accounts and senior debt of all FDIC-insured institutions and their holding companies. Non-interest bearing deposit transaction accounts under this program will have full insurance coverage. All FDIC insured institutions will be immediately covered for the first thirty days at no charge. After the initial 30 days, institutions may elect to opt out of the program by giving notice to the FDIC. There will be an annualized service charge of 10 basis points on all deposit accounts not covered by the \$250,000 limit. The Corporation has made the decision not to opt out of this coverage.

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The guarantee of newly issued senior debt is for all amounts issued before June 30, 2009 subject to certain limitations. This includes promissory notes, commercial paper and inter-bank funding. All FDIC insured institutions will be covered immediately under this program for the first thirty days at no charge. After 30 days or December 5, 2008, the institutions may elect to opt out. Institutions that elect to remain in the program will incur an annualized fee of 75 basis points on the amount of debt issued under this program. Coverage will be provided until June 30, 2012. The Corporation is still evaluating the particulars of this coverage and has not yet made a decision, as to its ability to opt out.

### **Acquisition of Lau Associates**

On July 15, 2008, Bryn Mawr Bank Corporation (BMBC) acquired JNJ Holdings LLC ( JNJ ), Lau Associates LLC ( Lau Associates ) and Lau Professional Services LLC (collectively Lau Associates ). BMBC acquired all of the issued and outstanding limited liability company membership interest in JNJ Holdings, a holding company that wholly owns Lau Associates, a financial planning and investment advisory firm, and Lau Professional Services, a tax preparation firm. The results of operations for Lau Associates for the 2 1/2 month period from July 15, 2008 to September 30, 2008 are included in the consolidated financial statements.

Lau Associates is a nationally recognized, independent, multi-family office serving high net worth individuals and families, with special expertise in planning intergenerational inherited wealth. The company had approximately \$487 million of assets under management and another \$129 million under supervision as of September 30, 2008. The acquisition provides strategic benefits offering complimentary products and services, as well as a shared tradition of values that BMBC anticipates will create long term value and growth for the organization. It is expected the acquisition will help BMBC grow wealth assets under management and supervision, grow non-interest income and expand our footprint in the State of Delaware.

The transaction was valued at \$10.3 million for 100% of the Company. The valuation was based on 2007 pre-tax income of \$891 thousand with a multiplier of 11.5. The Corporation paid \$3.7 million in cash to Marigot Daze (the Seller of JNJ) on July 15, 2008 to acquire the assets and control of the Company.

The remaining value of the Company will contingently be paid in subsequent contingent payments over a 3 1/2 year earn-out period that includes 4 payments for the calendar years ending December 31, 2008 through 2011. The subsequent contingent earn-out payments for the additional purchase price will be made based upon pre-tax income for such calendar years at a rate of 32.5% for year ending 2008 and 11.7% for each of the years ending 2009, 2010 and 2011. The maximum purchase price will not exceed more than \$19 million. The December 2008 payment will be paid on December 31, 2008 based on an estimated 2008 projection of pre-tax income for the year and adjusting the final payment in the first quarter of 2009. Additional direct costs associated with the business combination (investment banking financial advisory fees, legal fees, accounting and auditing fees and professional advisory and consulting fees) amounted to \$465 thousand and were capitalized.

### **Executive Overview**

The Corporation reported third quarter 2008 diluted earnings per share of \$0.26 and net income of \$2.3 million compared to diluted earnings per share of \$0.40 and net income of \$3.5 million in the same period last year. Return on average equity (ROE) and return on average assets (ROA) for the quarter ended September 30, 2008 were 9.55% and 0.83%, respectively. ROE was 15.90% and ROA was 1.56% in the same period last year. Relative to the third quarter of 2007, results for 2008 reflected higher loan loss provisions in the leasing portfolio, expenses associated with the previously announced surrender of our separate account BOLI insurance contract, a decline in the net interest margin, a decline in organic Wealth Management revenues due to the market downturn, and higher FDIC insurance costs.

Bryn Mawr's capital position and credit quality standards have positioned the Corporation to execute long-term growth strategies and build shareholder value at a time of disruption in today's financial markets. At September 30, 2008 the Corporation and the Bank are well-capitalized, and have not experienced any material deterioration in overall credit quality or suffered any permanent impairment to the investment portfolio. As a result, resources and energy are devoted to capitalizing on opportunities in the marketplace, to grow market share while improving pricing and maintaining asset quality discipline. The Bryn Mawr Trust Company is actively competing for high-quality new loan and deposit account opportunities in its traditional, affluent market.

In the third quarter of 2008, the Corporation continued to grow the loan and lease portfolio while maintaining the credit quality. Non-interest income also grew, as the acquisition of Lau Associates added \$712 thousand of Wealth Management revenue, offsetting the decrease in our organic Wealth Management revenues. In September 2008, new checking and savings account openings were the highest of any month in 2008. The current market climate provides a favorable competitive environment for both the existing business and the growth initiatives, including the December 2008 opening of our West Chester Regional Office and the rollout of The Bryn Mawr Trust Company of Delaware.



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Total portfolio loans and leases at September 30, 2008 increased \$75.3 million or 9.4% from December 31, 2007. Loan portfolio growth was led by strong performance in retail, housing-related borrowing, primarily loans to new and existing private banking clients in our immediate service area, along with demand from the local business community due to successful new business development efforts. Lease balances of \$57.0 million at September 30, 2008 increased \$11.9 million or 26.4% from December 31, 2007, and were up \$3 million or 5.2% from June 30, 2008, as tighter underwriting standards and reduced marketing emphasis slowed growth.

The net interest margin for the third quarter of 2008 was 3.90%, compared with 3.97% in the second quarter of 2008. This decrease was due to continued market competition, as the \$46.6 million growth in earning assets during the third quarter were added at average spreads that were below the composite spread of the existing portfolio. The net interest margin for the third quarter of 2008 of 3.90% was 39 basis points lower than the third quarter of 2007. The increase in earning assets from the comparable year ago period was due to a planned increase in the investment portfolio to approximately 10% of earning assets, along with the growth in the loan and lease portfolio. This asset growth was primarily funded with wholesale sources.

Net charge-offs for the third quarter of 2008 were 0.33% of average loans, up from 0.17% in the third quarter of 2007, due to higher losses in the lease portfolio. Total non-performing loans and leases at September 30, 2008 of \$2.1 million were 24 basis points of period end loans and leases. The provision for loan and lease losses in the current quarter was \$1.1 million, up from \$781 thousand in the second quarter of 2008 and zero in the third quarter of 2007. The allowance for loan and lease losses at September 30, 2008 of \$9.0 million represents 1.03% of loans and leases compared to 1.01% at December 31, 2007. The Company has not experienced appreciable deterioration in the credit quality of its non-lease loan portfolio. The Company has experienced leasing charge-offs of 5.06% in the third quarter of 2008 compared to 4.07% during the same period in 2007.

The Bank raised an aggregate of \$15 million in subordinated debt in July and August 2008 to support organic loan growth and to offset the impact on regulatory capital from the Lau Associates acquisition. The Regulatory well capitalized minimums and the respective ratios for both the Bank and the Corporation at September 30, 2008 and December 31, 2007 are presented later in this document in the Capital Section.

On August 13, 2008, the Corporation gave notice to its BOLI insurance carrier that it was surrendering its separate account BOLI insurance contract. The Corporation will receive approximately \$15.6 million in cash (its adjusted book value) in February 2009 which is recorded as a receivable on the balance sheet as of September 30, 2008.

## **NINE MONTH RESULTS**

The Corporation reported nine month 2008 net income of \$8.3 million or \$0.97 per diluted share, compared to net income of \$10.5 million or \$1.22 per diluted share in the same period last year. Net income for the first nine months of 2007, excluding an \$866 thousand or \$0.10 per diluted share (after tax) gain on the sale of real estate, was \$9.7 million or \$1.12 per diluted share. Return on average equity (ROE) and return on average assets (ROA) for the nine months ended September 30, 2008 were 11.99% and 1.09%, respectively, compared to 16.58% (15.21% excluding the real estate gain) and 1.69% (1.55% excluding the real estate gain), respectively, for the same period last year.

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### Key Performance Ratios

Key financial performance ratios for the three and nine months ended September 30, 2008 and 2007 are shown in the table below:

	Three Months Ended September 30		Nine Months Ended September 30		
	2008	2007	2008	2007	2007*
ROE	9.55%	15.90%	11.99%	16.58%	15.21%
ROA	0.83%	1.56%	1.09%	1.69%	1.55%
Efficiency ratio	67.47%	63.31%	64.43%	61.87%	63.90%
Tax equivalent net interest margin	3.90%	4.29%	3.94%	4.47%	4.47%
Diluted earnings per share	\$ 0.26	\$ 0.40	\$ 0.97	\$ 1.22	\$ 1.12
Dividend per share	\$ 0.14	\$ 0.13	\$ 0.40	\$ 0.37	\$ 0.37

\* Presented for the nine months ended September 30, 2007 excluding the gain on sale of real estate.

	September 30 2008	December 31 2007	September 30 2007
Book Value Per Share	\$ 10.97	\$ 10.60	\$ 10.43
Tangible Book Value Per Share	\$ 10.29	\$ 10.60	\$ 10.43
Allowance for loan and lease losses as a percentage of loans	1.03%	1.01%	1.07%

**Table of Contents****Reconciliation of Non-GAAP Information for the three months and nine months ended September 30, 2008**

This document contains financial information determined by methods other than in accordance with generally accepted accounting principles (GAAP). The Corporation's Management uses these non-GAAP measures in its analysis of the Corporation's performance. These non-GAAP measures consist of adjusting net income, diluted earnings per share, ROE and the ROA determined in accordance with GAAP to exclude the effects of the real estate gain in the first quarter of 2007 (and year to date). Management believes that the presentation excluding the impact of the real estate gain in the first quarter of 2007 (and year to date) provides useful supplementation information essential to the proper understanding of the operating results of the Corporation's core business. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures, which may be presented by other companies.

See the table below for a reconciliation of GAAP net income, diluted earnings per share, non-interest income, return on equity, return on assets and the efficiency ratio to comparable data that excludes the gain on sale of real estate. Management believes that the presentation provides useful supplemental information essential to the proper understanding of the operating results of the Corporation's core business. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures, which may be presented by other companies.

(dollars in thousands, except per share data)

Nine Months Ended September 30:	Net Income		Change		Non-interest Income		Change	
	2008	2007	Dollars	Percentage	2008	2007	Dollars	Percentage
As reported (GAAP)	\$ 8,318	\$ 10,522	\$ (2,204)	(20.9)%	\$ 16,207	\$ 16,381	\$ (174)	(1.1)%
After-tax/ pre-tax effect of gain on sale of real estate		(866)	866	7.0%		(1,333)	1,333	8.8%
Adjusted (Non-GAAP)	\$ 8,318	\$ 9,656	\$ (1,338)	(13.9)%	\$ 16,207	\$ 15,048	\$ 1,159	7.7%
	Diluted Earnings Per Share		Change		Return on Equity		Return on Assets	
	2008	2007	Dollars	Percentage	2008	2007	2008	2007
As reported (GAAP)	\$ 0.97	\$ 1.22	\$ (0.25)	(20.5)%	11.99%	16.58%	1.09%	1.69%
After-tax/ pre-tax effect of gain on sale of real estate		(0.10)	0.10	7.1%		(1.37)%		(0.14)%
Adjusted (Non-GAAP)	\$ 0.97	\$ 1.12	\$ (0.15)	(13.4)%	11.99%	15.21%	1.09%	1.55%
							Return on Assets	
							2008	2007
As reported (GAAP)							64.43%	61.87%
After-tax/pre-tax effect of gain on sale of real estate								2.03%
Adjusted (Non-GAAP)							64.43%	63.90%

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The table below reconciles the segment pretax profit to comparable data that excludes the gain on sale of real estate. Management believes that the presentation provides useful supplemental information essential to the proper understanding of the operation results of the Corporation's segments. These disclosures should not be viewed as or substituted for operating results determined in accordance with GAAP.

(Dollars in thousands)	Nine Months Ended September 30, 2007				
	Banking	Wealth Management	Mortgage Banking	All Other	Consolidated
Segment pretax profit (loss) (GAAP)	\$ 10,449	\$ 4,990	\$ 533	\$ (460)	\$ 15,512
Segment pretax gain on sale of real estate	(1,333)				(1,333)
Segment pretax profit (loss) excluding gain on sale of real estate (Non-GAAP)	\$ 9,116	\$ 4,990	\$ 533	\$ (460)	\$ 14,179
% of segment pretax profit (loss) (GAAP)	67.4%	32.2%	3.4%	(3.0)%	100%
% of segment pretax gain on sale of real estate	(3.1)%				
% of segment pretax profit (loss) excluding gain on sale of real estate (Non-GAAP)	64.3%	35.2%	3.8%	(3.3)%	100%

## Components of Net Income

Net income is affected by five major elements: **Net Interest Income** or the difference between interest income earned on loans and investments and interest expense paid on deposit and borrowed