

BRYN MAWR BANK CORP
Form 10-Q
November 02, 2018
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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 Exchange Act of 1934

For Quarter ended September 30, 2018

Commission File Number 1-35746

Bryn Mawr Bank Corporation
(Exact name of registrant as specified in its charter)

Pennsylvania	23-2434506
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No.)

801 Lancaster Avenue, Bryn Mawr, Pennsylvania	19010
(Address of principal executive offices)	(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company Emerging growth company
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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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 classes of common stock, as of the latest practicable date.

Classes	Outstanding at November 1, 2018
Common Stock, par value \$1	20,250,227

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

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QUARTER ENDED SEPTEMBER 30, 2018

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets - Unaudited

(dollars in thousands)	September 30, 2018	December 31, 2017
Assets		
Cash and due from banks	\$ 10,121	\$ 11,657
Interest bearing deposits with banks	35,233	48,367
Cash and cash equivalents	45,354	60,024
Investment securities available for sale, at fair value (amortized cost of \$543,240 and \$692,824 as of September 30, 2018 and December 31, 2017, respectively)	528,064	689,202
Investment securities held to maturity, at amortized cost (fair value of \$8,544 and \$7,851 as of September 30, 2018 and December 31, 2017, respectively)	8,916	7,932
Investment securities, trading	8,340	4,610
Loans held for sale	4,111	3,794
Portfolio loans and leases, originated	2,752,160	2,487,296
Portfolio loans and leases, acquired	629,315	798,562
Total portfolio loans and leases	3,381,475	3,285,858
Less: Allowance for originated loan and lease losses	(18,612)	(17,475)
Less: Allowance for acquired loan and lease losses	(72)	(50)
Total allowance for loans and lease losses	(18,684)	(17,525)
Net portfolio loans and leases	3,362,791	3,268,333
Premises and equipment, net	63,281	54,458
Accrued interest receivable	13,232	14,246
Mortgage servicing rights	5,328	5,861
Bank owned life insurance	57,543	56,667
Federal Home Loan Bank stock	14,678	20,083
Goodwill	183,864	179,889
Intangible assets	24,301	25,966
Other investments	16,529	12,470
Other assets	52,110	46,185
Total assets	\$ 4,388,442	\$ 4,449,720
Liabilities		
Deposits:		
Noninterest-bearing	\$ 834,363	\$ 924,844
Interest-bearing	2,522,863	2,448,954
Total deposits	3,357,226	3,373,798
Short-term borrowings	226,498	237,865
Long-term FHLB advances	72,841	139,140
Subordinated notes	98,482	98,416
Junior subordinated debentures	21,538	21,416
Accrued interest payable	7,193	3,527
Other liabilities	53,239	47,439
Total liabilities	3,837,017	3,921,601
Shareholders' equity		
Common stock, par value \$1; authorized 100,000,000 shares; issued 24,532,745 and 24,360,049 shares as of September 30, 2018 and December 31, 2017, respectively and	24,533	24,360

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outstanding of 20,292,420 and 20,161,395 as of September 30, 2018 and December 31, 2017, respectively

Paid-in capital in excess of par value	373,205	371,486
Less: Common stock in treasury at cost - 4,240,325 and 4,198,654 shares as of September 30, 2018 and December 31, 2017, respectively	(70,437	) (68,179)
Accumulated other comprehensive loss, net of tax	(13,402	) (4,414)
Retained earnings	238,204	205,549
Total Bryn Mawr Bank Corporation shareholders' equity	552,103	528,802
Noncontrolling interest	(678	) (683)
Total shareholders' equity	551,425	528,119
Total liabilities and shareholders' equity	\$ 4,388,442	\$ 4,449,720

The accompanying notes are an integral part of the Unaudited Consolidated Financial Statements.

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income - Unaudited

(dollars in thousands, except share and per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Interest income:				
Interest and fees on loans and leases	\$42,103	\$ 30,892	\$ 124,481	\$ 88,517
Interest on cash and cash equivalents	64	36	181	137
Interest on investment securities:				
Taxable	2,993	2,177	8,621	5,706
Non-taxable	71	91	233	302
Dividends	2	2	5	99
Total interest income	45,233	33,198	133,521	94,761
Interest expense:				
Interest on deposits	5,533	2,198	13,504	6,009
Interest on short-term borrowings	1,096	547	2,711	811
Interest on FHLB advances and other borrowings	394	645	1,446	2,025
Interest on subordinated notes	1,144	370	3,430	1,110
Interest on junior subordinated debentures	337	—	946	—
Total interest expense	8,504	3,760	22,037	9,955
Net interest income	36,729	29,438	111,484	84,806
Provision for loan and lease losses	664	1,333	4,831	1,541
Net interest income after provision for loan and lease losses	36,065	28,105	106,653	83,265
Noninterest income:				
Fees for wealth management services	10,343	9,651	31,309	28,761
Insurance commissions	1,754	1,373	5,349	3,079
Capital markets revenue	710	843	3,481	1,796
Service charges on deposits	726	676	2,191	1,953
Loan servicing and other fees	559	548	1,720	1,570
Net gain on sale of loans	631	799	1,677	1,948
Net gain on sale of investment securities available for sale	—	72	7	73
Net gain (loss) on sale of other real estate owned ("OREO")	5	—	292	(12)
Dividends on FHLB and FRB stock	375	217	1,316	649
Other operating income	3,171	1,405	10,543	3,779
Total noninterest income	18,274	15,584	57,885	43,596
Noninterest expenses:				
Salaries and wages	16,528	13,602	48,750	39,632
Employee benefits	3,356	2,560	9,941	7,453
Occupancy and bank premises	2,717	2,485	8,464	7,258
Furniture, fixtures, and equipment	2,070	1,726	6,037	5,569
Advertising	349	277	1,179	1,068
Amortization of intangible assets	891	677	2,659	2,057
Due diligence, merger-related and merger integration expenses	389	850	7,761	2,597
Professional fees	997	739	2,677	2,499
Pennsylvania bank shares tax	472	317	1,418	1,278
Information technology	1,155	880	3,602	2,575
Other operating expenses	4,668	4,071	12,970	11,353
Total noninterest expenses	33,592	28,184	105,458	83,339
Income before income taxes	20,747	15,505	59,080	43,522

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Income tax expense	4,066	4,766	12,419	14,306
Net income	\$16,681	\$ 10,739	\$46,661	\$ 29,216
Net (loss) income attributable to noncontrolling interest	(1)	—	5	—
Net income attributable to Bryn Mawr Bank Corporation	\$16,682	\$ 10,739	\$46,656	\$ 29,216
Basic earnings per common share	\$0.82	\$ 0.63	\$2.31	\$ 1.72
Diluted earnings per common share	\$0.82	\$ 0.62	\$2.28	\$ 1.69
Dividends paid or accrued per common share	\$0.25	\$ 0.22	\$0.69	\$ 0.64
Weighted-average basic shares outstanding	20,270,706	17,023,046	20,237,757	16,987,499
Dilutive shares	167,670	230,936	206,318	254,728
Adjusted weighted-average diluted shares	20,438,376	17,253,982	20,444,075	17,242,227

The accompanying notes are an integral part of the Unaudited Consolidated Financial Statements.

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income - Unaudited

(dollars in thousands)	Three Months		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Net income attributable to Bryn Mawr Bank Corporation	\$16,682	\$10,739	\$46,656	\$29,216
Other comprehensive (loss) income:				
Net change in unrealized (losses) gains on investment securities available for sale:				
Net unrealized (losses) gains arising during the period, net of tax (benefit) expense of \$(616), \$105, \$(2,337), and \$535, respectively	(2,319)	196	(8,792)	995
Reclassification adjustment for net (gain) on sale realized in net income, net of tax (expense) of \$0, \$(25), \$(1), and \$(25), respectively	—	(47)	(6)	(48)
Reclassification adjustment for net (gain) realized on transfer of investment securities available for sale to trading, net of tax (expense) benefit of \$0, \$0, \$(88), and \$0, respectively	—	—	(329)	—
Unrealized investment (losses) gains, net of tax (benefit) expense of \$(616), \$80, \$(2,426), and \$510, respectively	(2,319)	149	(9,127)	947
Net change in unfunded pension liability:				
Change in unfunded pension liability related to unrealized loss, prior service cost and transition obligation, net of tax expense of \$28, \$9, \$37, and \$34, respectively	108	15	139	62
Total other comprehensive (loss) income	(2,211)	164	(8,988)	1,009
Total comprehensive income	\$14,471	\$10,903	\$37,668	\$30,225

The accompanying notes are an integral part of the Unaudited Consolidated Financial Statements.

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows - Unaudited

	Nine Months Ended September 30,	
(dollars in thousands)	2018	2017
Operating activities:		
Net income attributable to Bryn Mawr Bank Corporation	\$46,656	\$29,216
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	4,831	1,541
Depreciation of fixed assets	4,584	4,181
Net amortization of investment premiums and discounts	2,373	2,189
Net gain on sale of investment securities available for sale	(7	) (73
Net gain on sale of loans	(1,677	) (1,948
Stock based compensation	1,944	1,476
Amortization and net impairment of mortgage servicing rights	549	619
Net accretion of fair value adjustments	(7,023	) (2,038
Amortization of intangible assets	2,659	2,057
Impairment of OREO and other repossessed assets	6	200
Net (gain) loss on sale of OREO	(292	) 12
Net increase in cash surrender value of bank owned life insurance ("BOLI")	(876	) (602
Other, net	(7,387	) 2,130
Loans originated for resale	(72,545	) (91,214
Proceeds from loans sold	73,650	95,599
Provision for deferred income taxes	4,768	325
Change in income taxes payable/receivable, net	6,033	(2,576
Change in accrued interest receivable	1,014	(754
Change in accrued interest payable	3,666	(467
Net cash provided by operating activities	62,926	39,873
Investing activities:		
Purchases of investment securities available for sale	(115,381)	(200,292)
Purchases of investment securities held to maturity	(1,328	) (3,466
Proceeds from maturity and paydowns of investment securities available for sale	259,102	259,765
Proceeds from maturity and paydowns of investment securities held to maturity	312	71
Proceeds from sale of investment securities available for sale	7	12,982
Net change in FHLB stock	5,405	1,057
Proceeds from calls of investment securities	310	22,180
Net change in other investments	(4,059	) (314
Purchase of domain name	—	(151
Purchase of customer relationships	(215) —
Purchase of portfolio loans and leases	(14,974) —
Net portfolio loan and lease originations	(82,695	) (142,416)
Purchases of premises and equipment	(13,532	) (5,251
Acquisitions, net of cash acquired	(380	) (4,792
Capitalize costs to OREO	(24	) (50
Proceeds from sale of OREO	430	375
Net cash provided by (used in) investing activities	32,978	(60,302

Financing activities:		
Change in deposits	(15,542)	104,558
Change in short-term borrowings	(11,367)	(23,277)
Dividends paid	(14,208)	(11,043)
Change in long-term FHLB advances and other borrowings	(66,371)	(55,000)
Payment of contingent consideration for business combinations	(660)	(100)
Cash payments to taxing authorities on employees' behalf from shares withheld from stock-based compensation	(1,489)	(1,112)
Net proceeds from sale of (purchase of) treasury stock for deferred compensation plans	52	(98)
Repurchase of warrants from U.S. Treasury	(1,755)	—
Net purchase of treasury stock through publicly announced plans	(690)	—
Proceeds from exercise of stock options	1,456	1,288
Net cash (used in) provided by financing activities	(110,574)	15,216
Change in cash and cash equivalents	(14,670)	(5,213)
Cash and cash equivalents at beginning of period	60,024	50,765
Cash and cash equivalents at end of period	\$45,354	\$45,552
Supplemental cash flow information:		
Cash paid during the year for:		
Income taxes	\$1,821	\$16,537
Interest	\$18,371	\$10,422
Non-cash information:		
Change in other comprehensive loss	\$(8,988)	\$1,009
Change in deferred tax due to change in comprehensive income	\$(2,389)	\$544
Transfer of loans to OREO and repossessed assets	\$345	\$309
Acquisition of noncash assets and liabilities:		
Assets acquired	\$1,466	\$7,284
Liabilities assumed	\$687	\$2,492

The accompanying notes are an integral part of the Unaudited Consolidated Financial Statements.

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes In Shareholders' Equity - Unaudited

(dollars in thousands, except share and per share data)

	For the Nine Months Ended September 30, 2018							
	Shares of Common Stock Issued	Common Stock	Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interest	Total Shareholders' Equity
Balance December 31, 2017	24,360,049	\$24,360	\$371,486	\$(68,179)	\$(4,414)	\$205,549	\$(683)	\$528,119
Net income attributable to Bryn Mawr Bank Corporation	—	—	—	—	—	46,656	—	46,656
Net income attributable to noncontrolling interest	—	—	—	—	—	—	5	5
Dividends paid or accrued, \$0.69 per share	—	—	—	—	—	(14,099)	—	(14,099)
Other comprehensive loss, net of tax benefit of \$2,389	—	—	—	—	(8,988)	—	—	(8,988)
Stock based compensation	—	—	1,944	—	—	—	—	1,944
Retirement of treasury stock	(2,253)	(2)	(20)	22	—	—	—	—
Net purchase of treasury stock from stock awards for statutory tax withholdings	—	—	—	(1,489)	—	—	—	(1,489)
Net treasury stock activity for deferred compensation trusts	—	—	153	(101)	—	—	—	52
Purchase of treasury stock through publicly announced plans	—	—	—	(690)	—	—	—	(690)
Repurchase of warrants from U.S. Treasury	—	—	(1,853)	—	—	98	—	(1,755)
Common stock issued:								
Common stock issued through share-based awards	172,387	172	1,385	—	—	—	—	1,557

and options exercises

Shares issued in acquisitions ⁽¹⁾	2,562	3	110	—	—	—	—	113
Balance September 30, 2018	24,532,745	\$24,533	\$373,205	\$(70,437)	\$(13,402)	\$238,204	\$(678)	\$551,425

(1) Shares relating to the RBPI Merger (defined in Note 3 – Business Combinations below) recorded in April 2018.

The accompanying notes are an integral part of the Unaudited Consolidated Financial Statements.

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 - Basis of Presentation

The Unaudited Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). In the opinion of Bryn Mawr Bank Corporation’s (the “Corporation”) management, all 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 Annual Report on Form 10-K for the twelve months ended December 31, 2017 (the “2017 Annual Report”).

The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the full year.

Principles of Consolidation

The Unaudited Consolidated Financial Statements include the accounts of the Corporation and its wholly owned subsidiaries; the Corporation’s primary subsidiary is The Bryn Mawr Trust Company (the “Bank”). In connection with the RBPI Merger (defined in Note 3 – Business Combinations below), the Corporation acquired two Delaware trusts, Royal Bancshares Capital Trust I and Royal Bancshares Capital Trust II. These two entities are not consolidated per requirements under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, “Consolidation” (“ASC Topic 810”). All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current-year presentation.

Note 2 - Recent Accounting Pronouncements

The following FASB Accounting Standards Updates (“ASUs”) are divided into pronouncements which have been adopted by the Corporation since January 1, 2018, and those which are not yet effective and have been evaluated or are currently being evaluated by management as of September 30, 2018.

Adopted Pronouncements:

FASB ASU 2014-9 (Topic 606), “Revenue from Contracts with Customers”

The Corporation adopted ASU 2014-9 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, “ASC 606”), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. The majority of the Corporation’s revenues come from interest income and other sources, including loans, leases, investment securities and derivatives, that are outside the scope of ASC 606. The Corporation’s services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Corporation satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges on deposits, Visa debit card income, wealth management fees, investment brokerage fees, and the net gain on sale of OREO. Refer to Note 17 Revenue from Contracts with Customers for further discussion on the Corporation’s accounting policies for revenue sources within the scope of ASC 606. The adoption of this ASU did not have an impact to our Consolidated Financial Statements and related disclosures.

FASB ASU 2017-1 (Topic 805), "Business Combinations"

The Corporation adopted ASU 2017-1, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements and related disclosures.

FASB ASU 2016-15 (Topic 320), "Classification of Certain Cash Receipts and Cash Payments"

The Corporation adopted ASU 2016-15, which provides guidance on eight specific cash flow issues and their disclosure in the consolidated statements of cash flows. The issues addressed include debt prepayment, settlement of zero-coupon debt,

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contingent consideration in business combinations, proceeds from settlement of insurance claims, proceeds from settlement of BOLI, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements and related disclosures.

FASB ASU 2016-1 (Subtopic 825-10), “Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities”

The Corporation adopted ASU 2016-1 which requires that equity investments be measured at fair value with changes in fair value recognized in net income. The Corporation’s equity investments with a readily determinable fair value are currently included within trading securities and are measured at fair value with changes in fair value recognized in net income. In connection with the adoption of this ASU, the Corporation elected the practicability exception to fair value measurement for investments in equity securities without a readily determinable fair value (other than our Federal Home Loan Bank (“FHLB”), Federal Reserve Bank (“FRB”), and Atlantic Central Bankers Bank stock, which are outside of the scope of this ASU). Under the practicability exception, the investments are measured at cost, less impairment, plus or minus observable price changes (in orderly transactions) of an identical or similar investment of the same issuer. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements and related disclosures.

FASB ASU 2017-7 (Topic 715), “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”

On January 1, 2018, the Corporation adopted ASU 2017-7 and all subsequent amendments to the ASU, which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset).

Upon adoption, the components of net periodic benefit cost other than the service cost component were reclassified retrospectively from “Employee benefits” to “Other operating expenses” in the Consolidated Statements of Income. Since both “Employee benefits” and “Other operating expenses” line items are under “Noninterest expenses”, there was no impact to total “Noninterest expenses” or “Net income.” The components of net periodic benefit cost are currently disclosed in Note 17 – “Pension and Postretirement Benefit Plans” in the Notes to Consolidated Financial Statements found in our 2017 Annual Report. Additionally, the Corporatio