BRYN MAWR BANK CORP
Form 10-Q
November 02, 2018
Table of Contents

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.

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

Table of Contents

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2018

Index

Table of Contents

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

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.

Table of Contents

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income - Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except share and per share data)	2018	2017	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

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.

Table of Contents

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income - Unaudited

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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,

Table of Contents

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 Corporation does not currently capitalize any components of its net periodic benefit costs. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements and related disclosures.

Pronouncements Not Yet Effective:

FASB ASU 2018-07, "Improvements to Nonemployee Share-Based Payment Accounting"

Issued in June 2018, ASU 2018-07: Compensation - Stock Compensation (Topic 718), "Improvements to Nonemployee Share-Based Payment Accounting" expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Corporation has not historically granted share based payment awards to nonemployees other than to the Corporation's Board of Directors, who are treated as employees for share-based payment accounting. As a result, management does not expect the adoption of this ASU to have an impact on our Consolidated Financial Statements and related disclosures.

FASB ASU 2017-4 (Topic 350), “Intangibles – Goodwill and Others”

Issued in January 2017, ASU 2017-4 simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. ASU 2017-4 is effective for annual periods beginning after December 15, 2019 including interim periods within those periods. Management does not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements and related disclosures.

FASB ASU 2016-13 (Topic 326), “Measurement of Credit Losses on Financial Instruments”

Issued in June 2016, ASU 2016-13 significantly changes how companies measure and recognize credit impairment for many financial assets. The new current expected credit loss (“CECL”) model will require companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are in the scope of the standard. The ASU also makes targeted amendments to the current impairment model for available-for-sale debt securities. ASU 2016-13 is effective for the annual and interim periods in fiscal years beginning after December 15, 2019, with early adoption permitted. Adoption of this new guidance can be applied only on a prospective basis as a cumulative-effect adjustment to retained earnings.

It is expected that the new model will include different assumptions used in calculating credit losses, such as estimating losses over the estimated life of a financial asset, and will consider expected future changes in macroeconomic conditions. The adoption of this ASU may result in an increase to the Corporation’s allowance for credit losses, which will depend upon the nature and characteristics of the Corporation 's portfolio at the adoption date, as well as the macroeconomic conditions and forecasts at the adoption date. The Corporation has engaged the services of a third-party consultant as well as invested in software designed to assist management in the development and implementation of the new CECL model. Management has validated historical data uploaded within the third-party software and is beginning to develop the CECL model, including evaluating key assumptions such as portfolio segmentation, life of loan assumptions, and financial forecasts. The adoption of this ASU will also require the addition of an allowance for held-to-maturity debt securities. The Corporation currently does not intend to early adopt this new guidance.

FASB ASU 2016-2 (Topic 842), “Leases”

Issued in February 2016, ASU 2016-2 revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and right-of-use asset for all leases. The new lease guidance also simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. ASU 2016-2 is effective for the first interim period within annual periods beginning after December 15, 2018, with early adoption permitted. The standard is required to be adopted using the modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Management is in-process of migrating data and key assumptions into a third-party lease accounting software to calculate the lease liability and right-of-use asset for all existing leases of the Corporation. Management is aware that the adoption of this ASU will impact the Corporation’s balance sheet for the recording of assets and liabilities for operating leases. Any additional assets recorded as a result of implementation will have a negative impact on the Corporation and Bank capital ratios under current regulatory guidance.

FASB ASU 2018-12 (Topic 944), “Targeted Improvements to the Accounting for Long-Duration Contracts”

Issued in August 2018, ASU 2018-12 makes targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. Specifically, the

ASU is intended to 1) improve the timeliness of recognizing changes in the liability for future policy benefits and modify the rate used to discount future cash flows, 2) simplify and improve the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts, 3) simplify the amortization of deferred acquisition costs, and 4) improve the effectiveness of the required disclosures. ASU 2018-12 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application of the amendments is permitted. As an independent insurance agent, the Corporation does not issue insurance contracts. As a result, management does not expect the adoption of this ASU to have an impact on our Consolidated Financial Statements and related disclosures.

Table of Contents

Note 3 - Business Combinations

Domenick & Associates (“Domenick”)

The Bank’s subsidiary, BMT Insurance Advisors, Inc., completed the acquisition of Domenick, a full-service insurance agency established in 1993 and headquartered in the Old City section of Philadelphia, on May 1, 2018. The consideration paid was $1.5 million, of which $750 thousand was paid at closing, with three contingent cash payments, not to exceed $250 thousand each, to be payable on each of May 1, 2019, May 1, 2020, and May 1, 2021, subject to the attainment of certain targets during the related periods.

The following table details the consideration paid, the initial estimated fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition and the resulting goodwill recorded:

(dollars in thousands)	
Consideration paid:	
Cash paid at closing	$750
Contingent payment liability (present value)	706
Value of consideration	$1,456
Assets acquired:	
Cash and due from banks	370
Intangible assets - customer relationships	779
Premises and equipment	1
Other assets	316
Total assets	1,466
Liabilities assumed:	
Accounts payable	657
Other liabilities	30
Total liabilities	$687
Net assets acquired	$779
Goodwill resulting from acquisition of Domenick	$677

As of June 30, 2018, the estimates of the fair value of identifiable assets acquired and liabilities assumed in the Domenick acquisition were final.

Royal Bancshares of Pennsylvania, Inc.

On December 15, 2017, the previously announced merger of Royal Bancshares of Pennsylvania, Inc. (“RBPI”) with and into the Corporation (the “Effective Date”), and the merger of Royal Bank America with and into the Bank (collectively, the "RBPI Merger"), as contemplated by the Agreement and Plan of Merger, by and between RBPI and the Corporation, dated as of January 30, 2017 (the “Agreement”) was completed. In accordance with the Agreement, the aggregate share consideration paid to RBPI shareholders consisted of 3,101,316 shares of the Corporation’s common stock. Shareholders of RBPI received 0.1025 shares of Corporation common stock for each share of RBPI Class A common stock and 0.1179 shares of Corporation common stock for each share of RBPI Class B common stock owned as of the Effective Date of the RBPI Merger, with cash-in-lieu of fractional shares totaling $7 thousand. Holders of in-the-money options to purchase RBPI Class A common stock received cash totaling $112 thousand. In addition, 1,368,040 warrants to purchase Class A common stock of RBPI, valued at $1.9 million were converted to 140,224 warrants to purchase Corporation common stock. In accordance with the acquisition method of accounting, assets acquired and liabilities assumed were preliminarily adjusted to their fair values as of the Effective Date. The excess of consideration paid above the fair value of net assets acquired was recorded as goodwill. This goodwill is not amortizable nor is it deductible for income tax purposes.

Table of Contents

In connection with the RBPI Merger, the consideration paid and the estimated fair value of identifiable assets acquired and liabilities assumed as of the Effective Date, which include the effects of any measurement period adjustments in accordance with ASC 805-10, are summarized in the following table:

(dollars in thousands)	
Consideration paid:	
Common shares issued (3,101,316)	$136,768
Cash in lieu of fractional shares	7
Cash-out of certain options	112
Fair value of warrants assumed	1,853
Value of consideration	$138,740
Assets acquired:	
Cash and due from banks	17,092
Investment securities available for sale	121,587
Loans	566,228
Premises and equipment	8,264
Deferred income taxes	34,586
Bank-owned life insurance	16,550
Core deposit intangible	4,670
Favorable lease asset	566
Other assets	13,996
Total assets	$783,539
Liabilities assumed:	
Deposits	593,172
FHLB and other long-term borrowings	59,568
Short-term borrowings	15,000
Junior subordinated debentures	21,416
Unfavorable lease liability	322
Other liabilities	31,381
Total liabilities	$720,859
Net assets acquired	$62,680
Goodwill resulting from acquisition of RBPI	$76,060

Provisional Estimates of Fair Value of Certain Assets Acquired in the RBPI Merger
As of September 30, 2018, the accounting for the estimates of fair value for certain loans acquired in the RBPI Merger is incomplete. The Corporation is in the process of obtaining new information that will allow management to better estimate fair values that existed as of the Effective Date. When this information is obtained, management anticipates an adjustment to the provisional fair value assigned to certain acquired loans. These adjustments will result in corresponding adjustments to goodwill and net deferred tax asset. In accordance with ASC 805-10, the adjustments will be recorded in the period in which the new information about facts and circumstances that existed as of the Effective Date is obtained and reviewed.

During the nine months ended September 30, 2018, the Corporation adjusted certain provisional fair value estimates related to the RBPI Merger. The following table details the changes in fair value of the net assets acquired and liabilities assumed as of the Effective Date from the amounts originally reported in the 2017 Annual Report:

Table of Contents

(dollars in thousands)		
Goodwill resulting from the acquisition of RBPI reported as of December 31, 2017	$	72,762
Value of Consideration Adjustment:		
Common shares issued (2,562)	113	
Fair Value Adjustments:		
Loans	4,145	
Other assets	491	
Deferred income taxes	(1,451	)
Total Fair Value Adjustments	3,185	
Goodwill from the acquisition of RBPI as of September 30, 2018	$	76,060

Methods Used to Fair Value Assets and Liabilities

For information regarding the valuation methodologies used to estimate the fair values of major categories of assets acquired and liabilities assumed, refer to Note 2 in the Notes to Consolidated Financial Statements in the 2017 Annual Report.

Loans Held for Investment

During the first and third quarters of 2018, new information became available related to certain loans acquired from RBPI which resulted in an adjustment to the fair value mark applied to acquired loans with evidence of credit quality deterioration. Loans meeting this definition were reviewed by comparing the contractual cash flows to expected collectible cash flows. The aggregate expected cash flows less the acquisition date fair value results in an accretable yield amount. The accretable yield amount will be recognized over the life of the loans or over the recovery period of the underlying collateral on a level yield basis as an adjustment to yield. As a result of the adjustments, the Corporation recorded increases of $3.0 million and $1.6 million in nonaccretable difference in the first and third quarters of 2018, respectively. The adjustment to the aggregate expected cash flows less the Effective Date fair value resulted in an increase in accretable yield of $325 thousand. There were no adjustments to the fair value mark applied to the acquired loan portfolio during the second quarter of 2018.

The following table provides an updated summary of the acquired impaired loans and leases as of the Effective Date, which include the effects of any measurement period adjustments in accordance with ASC 805-10, resulting from the RBPI Merger:

(dollars in thousands)	
Contractually required principal and interest payments	$40,741
Contractual cash flows not expected to be collected (nonaccretable difference)	(17,637)
Cash flows expected to be collected	23,104
Interest component of expected cash flows (accretable yield)	(2,644)
Fair value of loans acquired with deterioration of credit quality	$20,460

Harry R. Hirshorn & Company, Inc., d/b/a Hirshorn Boothby (“Hirshorn”)

The acquisition of Hirshorn, an insurance agency headquartered in the Chestnut Hill section of Philadelphia, was completed on May 24, 2017. Immediately after the acquisition, Hirshorn was merged into the Bank’s existing insurance subsidiary, BMT Insurance Advisors, Inc., formerly known as Powers Craft Parker and Beard, Inc. The consideration paid by the Bank was $7.5 million, of which $5.8 million was paid at closing, one contingent cash payment of $575 thousand was paid during the second quarter of 2018, and two contingent cash payments, not to exceed $575 thousand each, to be payable on each of May 24, 2019 and May 24, 2020, subject to the attainment of certain targets during the related periods. The acquisition enhanced the Bank’s ability to offer comprehensive insurance solutions to both individual and business clients and continues the strategy of selectively establishing specialty offices in targeted areas.

Table of Contents

In connection with the Hirshorn acquisition, the following table details the consideration paid, the initial estimated fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition and the resulting goodwill recorded:

(dollars in thousands)	
Consideration paid:	
Cash paid at closing	$5,770
Contingent payment liability (present value)	1,690
Value of consideration	7,460
Assets acquired:	
Cash operating accounts	978
Intangible assets – trade name	195
Intangible assets – customer relationships	2,672
Intangible assets – non-competition agreements	41
Premises and equipment	1,795
Accounts receivable	192
Other assets	27
Total assets	5,900
Liabilities assumed:	
Accounts payable	800
Other liabilities	2
Total liabilities	802
Net assets acquired	5,098
Goodwill resulting from acquisition of Hirshorn	$2,362

As of December 31, 2017, the estimates of the fair value of identifiable assets acquired and liabilities assumed in the Hirshorn acquisition were final.

Pro Forma Income Statements (unaudited)

The following table presents the pro forma income statement of the combined institution (RBPI and the Corporation) for the three and nine months ended September 30, 2017 as if the RBPI Merger had occurred on January 1, 2017. The pro forma income statement adjustments are limited to the effects of purchase accounting fair value mark amortization and accretion and intangible asset amortization. No cost savings or additional merger expenses have been included in the pro forma income statement. Due to the immaterial contribution to net income of the Hirshorn acquisition, which occurred during the year shown in the table, the pro forma effects of the Hirshorn acquisition have been excluded.

Table of Contents

(dollars in thousands)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Total interest income	$ 43,412	$ 126,976
Total interest expense	5,480	15,013
Net interest income	37,932	111,963
Provision for loan and lease losses	1,492	2,054
Net interest income after provision for loan and lease losses	36,440	109,909
Total noninterest income	16,015	45,481
Total noninterest expenses*	33,364	99,699
Income before income taxes	19,091	55,691
Income tax expense	5,843	18,306
Net income	$ 13,248	$ 37,385
Per share data**:		
Weighted-average basic shares outstanding	20,121,800	20,086,253
Dilutive shares	261,935	284,294
Adjusted weighted-average diluted shares	20,383,735	20,370,547
Basic earnings per common share	$ 0.66	$ 1.86
Diluted earnings per common share	$ 0.65	$ 1.84

* Total noninterest expense includes RBPI Net Income Attributable to Noncontrolling Interest and Preferred Stock Series A Accumulated Dividend and Accretion for pro forma presentation.

** Assumes that the shares of RBPI common stock outstanding as of December 31, 2017 were outstanding for the full three and nine month periods ended September 30, 2017.

Due Diligence, Merger-Related and Merger Integration Expenses

Due diligence, merger-related and merger integration expenses include consultant costs, investment banker fees, contract breakage fees, retention bonuses for severed employees, salary and wages for redundant staffing involved in the integration of the institutions and bonus accruals for members of the merger integration team. The following table details the costs identified and classified as due diligence, merger-related and merger integration costs for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2018	2017	2018	2017
Advertising	$—	$89	$61	$108
Employee Benefits	—	5	271	10
Occupancy and bank premises	—	—	2,145	—
Furniture, fixtures, and equipment	—	31	365	37
Information technology	167	41	421	300
Professional fees	193	632	1,450	1,570
Salaries and wages	29	28	852	428
Other	—	24	2,196	144

Total due diligence, merger-related and merger integration expenses	$389	$850	$7,761	$2,597

Page 15

Table of Contents

Note 4 - Investment Securities

The amortized cost and fair value of investment securities available for sale as of September 30, 2018 and December 31, 2017 are as follows:

As of September 30, 2018

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 100	$ —	$ —	$ 100
Obligations of the U.S. government and agencies	196,334	17	(5,898)	190,453
Obligations of state and political subdivisions	15,890	1	(92)	15,799
Mortgage-backed securities	292,005	344	(7,928)	284,421
Collateralized mortgage obligations	37,811	—	(1,618)	36,193
Other investment securities	1,100	—	(2)	1,098
Total	$ 543,240	$ 362	$ (15,538)	$ 528,064

As of December 31, 2017

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 200,077	$ 11	$ —	$ 200,088
Obligations of the U.S. government and agencies	153,028	75	(2,059)	151,044
Obligations of state and political subdivisions	21,352	11	(53)	21,310
Mortgage-backed securities	275,958	887	(1,855)	274,990
Collateralized mortgage obligations	37,596	14	(948)	36,662
Other investment securities	4,813	318	(23)	5,108
Total	$ 692,824	$ 1,316	$ (4,938)	$ 689,202

The following tables present the aggregate amount of gross unrealized losses as of September 30, 2018 and December 31, 2017 on available for sale investment securities classified according to the amount of time those securities have been in a continuous unrealized loss position:

As of September 30, 2018

	Less than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of the U.S. government and agencies	$ 82,187	$ (1,634)	$ 107,601	$ (4,264)	$ 189,788	$ (5,898)
Obligations of state and political subdivisions	11,009	(21)	2,303	(71)	13,312	(92)
Mortgage-backed securities	136,170	(3,037)	130,269	(4,891)	266,439	(7,928)
Collateralized mortgage obligations	10,939	(86)	24,945	(1,532)	35,884	(1,618)
Other investment securities	549	(1)	249	(1)	798	(2)
Total	$ 240,854	$ (4,779)	$ 265,367	$ (10,759)	$ 506,221	$ (15,538)

Table of Contents

As of December 31, 2017

	Less than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of the U.S. government and agencies	$114,120	$(1,294)	$26,726	$(765)	$140,846	$(2,059)
Obligations of state and political subdivisions	11,144	(29)	2,709	(24)	13,853	(53)
Mortgage-backed securities	177,919	(1,293)	31,787	(562)	209,706	(1,855)
Collateralized mortgage obligations	5,166	(47)	26,686	(901)	31,852	(948)
Other investment securities	1,805	(23)	—	—	1,805	(23)
Total	$310,154	$(2,686)	$87,908	$(2,252)	$398,062	$(4,938)

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

As of September 30, 2018 and December 31, 2017, securities having a fair value of $121.1 million and $126.2 million, respectively, were specifically pledged as collateral for public funds, trust deposits, the FRB discount window program, FHLB borrowings and other purposes. Advances by the FHLB are collateralized by a blanket lien on non-pledged, mortgage-related loans as part of the Corporation’s borrowing agreement with the FHLB as well as certain securities individually pledged by the Corporation.

The amortized cost and fair value of available for sale investment and mortgage-related securities available for sale as of September 30, 2018 and December 31, 2017, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2018		December 31, 2017	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities:				
Due in one year or less	$12,265	$12,237	$211,019	$211,019
Due after one year through five years	176,700	171,374	126,452	124,797
Due after five years through ten years	24,459	23,839	23,147	22,804
Due after ten years	—	—	15,439	15,421
Subtotal	213,424	207,450	376,057	374,041
Mortgage-related securities(1)	329,816	320,614	313,554	311,652
Mutual funds with no stated maturity	—	—	3,213	3,509
Total	$543,240	$528,064	$692,824	$689,202

(1) Expected maturities of mortgage-related securities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table of Contents

The amortized cost and fair value of investment securities held to maturity as of September 30, 2018 and December 31, 2017 are as follows:

As of September 30, 2018

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 8,916	$ —	$ (372)	$8,544

As of December 31, 2017

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 7,932	$ 5	$ (86)	$7,851

The following tables present the aggregate amount of gross unrealized losses as of September 30, 2018 and December 31, 2017 on held to maturity securities classified according to the amount of time those securities have been in a continuous unrealized loss position:

As of September 30, 2018

	Less than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$3,882	$ (132)	$4,662	$ (240)	$8,544	$ (372)

As of December 31, 2017

	Less than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$2,756	$ (25)	$3,866	$ (61)	$6,622	$ (86)

The amortized cost and fair value of held to maturity investment securities as of September 30, 2018 and December 31, 2017, by contractual maturity, are shown below:

	September 30, 2018		December 31, 2017	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed securities(1)	$8,916	$8,544	$7,932	$7,851

(1) Expected maturities of mortgage-related securities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

As of September 30, 2018 and December 31, 2017, the Corporation’s investment securities held in trading accounts totaled $8.3 million and $4.6 million, respectively, and primarily consist of deferred compensation trust accounts which are invested in listed mutual funds whose diversification is at the discretion of the deferred compensation plan participants and a rabbi trust account established to fund certain unqualified pension obligations. During the first quarter of 2018, $3.2 million of investment securities included within the rabbi trust account were reclassified from available for sale to trading. Investment securities held in trading accounts are reported at fair value, with adjustments in fair value reported through income.

Table of Contents

Note 5 - Loans and Leases

The loan and lease portfolio consists of loans and leases originated by the Corporation, as well as loans acquired in mergers and acquisitions. These mergers and acquisitions include the December 2017 RBPI Merger, the January 2015 Continental Bank Holdings, Inc. Merger, the November 2012 transaction with First Bank of Delaware, and the July 2010 acquisition of First Keystone Financial, Inc. Certain tables in this footnote are presented with a breakdown between originated and acquired loans and leases.

A. The table below details portfolio loans and leases as of the dates indicated:

	September 30, 2018			December 31, 2017		
(dollars in thousands)	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Loans held for sale	$4,111	$—	$4,111	$3,794	$—	$3,794
Real Estate Loans:						
Commercial mortgage	$1,259,397	$359,096	$1,618,493	$1,122,327	$401,050	$1,523,377
Home equity lines and loans	180,068	27,738	207,806	183,283	34,992	218,275
Residential mortgage	381,037	86,365	467,402	360,935	97,951	458,886
Construction	158,691	19,802	178,493	128,266	84,188	212,454
Total real estate loans	$1,979,193	$493,001	$2,472,194	$1,794,811	$618,181	$2,412,992
Commercial and industrial	618,200	104,799	722,999	589,304	130,008	719,312
Consumer	44,833	2,976	47,809	35,146	3,007	38,153
Leases	109,934	28,539	138,473	68,035	47,366	115,401
Total portfolio loans and leases	$2,752,160	$629,315	$3,381,475	$2,487,296	$798,562	$3,285,858
Total loans and leases	$2,756,271	$629,315	$3,385,586	$2,491,090	$798,562	$3,289,652
Loans with fixed rates	$1,167,097	$375,326	$1,542,423	$1,034,542	$538,510	$1,573,052
Loans with adjustable or floating rates	1,589,174	253,989	1,843,163	1,456,548	260,052	1,716,600
Total loans and leases	$2,756,271	$629,315	$3,385,586	$2,491,090	$798,562	$3,289,652
Net deferred loan origination fees included in the above loan table	$1,220	$—	$1,220	$887	$—	$887

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

	September 30, 2018			December 31, 2017		
(dollars in thousands)	Originated	Acquired	Total Leases	Originated	Acquired	Total Leases
Minimum lease payments receivable	$122,596	$32,039	$154,635	$75,592	$55,219	$130,811
Unearned lease income	(17,717)	(4,293)	(22,010)	(10,338)	(9,523)	(19,861)
Initial direct costs and deferred fees	5,055	793	5,848	2,781	1,670	4,451
Total Leases	$109,934	$28,539	$138,473	$68,035	$47,366	$115,401

Page 19

Table of Contents

C. Non-Performing Loans and Leases[1]

(dollars in thousands)	September 30, 2018 Originated	Acquired	Total Loans and Leases	December 31, 2017 Originated	Acquired	Total Loans and Leases
Commercial mortgage	$—	$ 735	$735	$90	$ 782	$872
Home equity lines and loans	1,692	241	1,933	1,221	260	1,481
Residential mortgage	1,968	802	2,770	1,505	2,912	4,417
Construction	291	—	291	—	—	—
Commercial and industrial	925	857	1,782	826	880	1,706
Consumer	42	75	117	—	—	—
Leases	479	883	1,362	103	—	103
Total non-performing loans and leases	$5,397	$ 3,593	$8,990	$3,745	$ 4,834	$8,579

(1) Purchased credit-impaired loans, which have been recorded at their fair values at acquisition, and which are performing, are excluded from this table, with the exception of $393 thousand and $167 thousand of purchased credit-impaired loans as of September 30, 2018 and December 31, 2017, respectively, which became non-performing subsequent to acquisition.

D. Purchased Credit-Impaired Loans

The outstanding principal balance and related carrying amount of purchased credit-impaired loans, for which the Corporation applies ASC 310-30, Accounting for Purchased Loans with Deteriorated Credit Quality, to account for the interest earned, as of the dates indicated, are as follows:

(dollars in thousands)	September 30, 2018	December 31, 2017
Outstanding principal balance	$ 38,062	$ 46,543
Carrying amount[1]	$ 27,519	$ 30,849

(1) Includes $393 thousand and $173 thousand of purchased credit-impaired loans as of September 30, 2018 and December 31, 2017, respectively, for which the Corporation could not estimate the timing or amount of expected cash flows to be collected at acquisition, and for which no accretable yield is recognized. Additionally, the table above includes $393 thousand and $167 thousand of purchased credit-impaired loans as of September 30, 2018 and December 31, 2017, respectively, which became non-performing subsequent to acquisition, which are disclosed in Note 5C, above, and which also have no accretable yield.

The following table presents changes in the accretable discount on purchased credit-impaired loans, for which the Corporation applies ASC 310-30, for the nine months ended September 30, 2018:

(dollars in thousands)	Accretable Discount
Balance, December 31, 2017	$ 4,083
Accretion	(1,819)
Reclassifications from nonaccretable difference	609
Additions/adjustments	329
Balance, September 30, 2018	$ 3,202

Page 20

Table of Contents

E. Age Analysis of Past Due Loans and Leases

The following tables present an aging of all portfolio loans and leases as of the dates indicated:

As of September 30, 2018	Accruing Loans and Leases							
(dollars in thousands)	30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$—	$2,468	$ —	$2,468	$1,615,290	$1,617,758	$ 735	$1,618,493
Home equity lines and loans	324	—	—	324	205,549	205,873	1,933	207,806
Residential mortgage	2,218	179	—	2,397	462,235	464,632	2,770	467,402
Construction	488	—	—	488	177,714	178,202	291	178,493
Commercial and industrial	1,115	1,255	—	2,370	718,847	721,217	1,782	722,999
Consumer	46	23	—	69	47,623	47,692	117	47,809
Leases	751	252	—	1,003	136,108	137,111	1,362	138,473
Total portfolio loans and leases	$4,942	$4,177	$ —	$9,119	$3,363,366	$3,372,485	$ 8,990	$3,381,475

As of December 31, 2017	Accruing Loans and Leases							
(dollars in thousands)	30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$1,366	$2,428	$ —	$3,794	$1,518,711	$1,522,505	$ 872	$1,523,377
Home equity lines and loans	338	10	—	348	216,446	216,794	1,481	218,275
Residential mortgage	1,386	79	—	1,465	453,004	454,469	4,417	458,886
Construction	—	—	—	—	212,454	212,454	—	212,454
Commercial and industrial	658	286	—	944	716,662	717,606	1,706	719,312
Consumer	1,106	—	—	1,106	37,047	38,153	—	38,153
Leases	125	177	—	302	114,996	115,298	103	115,401
Total portfolio loans and leases	$4,979	$2,980	$ —	$7,959	$3,269,320	$3,277,279	$ 8,579	$3,285,858

*Included as "current" are $720 thousand and $4.1 million of loans and leases as of September 30, 2018 and December 31, 2017, respectively, which are classified as administratively delinquent. An administratively delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. Management does not consider these loans to be delinquent.

The following tables present an aging of originated portfolio loans and leases as of the dates indicated:

As of September 30, 2018	Accruing Loans and Leases							
(dollars in thousands)	30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$—	$76	$ —	$76	$1,259,321	$1,259,397	$ —	$1,259,397
Home equity lines and loans	250	—	—	250	178,126	178,376	1,692	180,068
Residential mortgage	1,475	—	—	1,475	377,594	379,069	1,968	381,037
Construction	488	—	—	488	157,912	158,400	291	158,691

Commercial and industrial	1,051	1,255	—	2,306	614,969	617,275	925	618,200
Consumer	46	23	—	69	44,722	44,791	42	44,833
Leases	407	115	—	522	108,933	109,455	479	109,934
Total originated portfolio loans and leases	$3,717	$1,469	$ —	$5,186	$2,741,577	$2,746,763	$ 5,397	$2,752,160

Table of Contents

As of December 31, 2017 (dollars in thousands)	Accruing Loans and Leases 30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$1,255	$81	$ —	$1,336	$1,120,901	$1,122,237	$ 90	$1,122,327
Home equity lines and loans	26	—	—	26	182,036	182,062	1,221	183,283
Residential mortgage	721	—	—	721	358,709	359,430	1,505	360,935
Construction	—	—	—	—	128,266	128,266	—	128,266
Commercial and industrial	439	236	—	675	587,803	588,478	826	589,304
Consumer	21	—	—	21	35,125	35,146	—	35,146
Leases	125	177	—	302	67,630	67,932	103	68,035
Total originated portfolio loans and leases	$2,587	$494	$ —	$3,081	$2,480,470	$2,483,551	$ 3,745	$2,487,296

*Included as "current" are $720 thousand and $4.0 million of loans and leases as of September 30, 2018 and December 31, 2017, respectively, which are classified as administratively delinquent. An administratively delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. Management does not consider these loans to be delinquent.

The following tables present an aging of acquired portfolio loans and leases as of the dates indicated:

As of September 30, 2018 (dollars in thousands)	Accruing Loans and Leases 30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$—	$2,392	$ —	$2,392	$355,969	$358,361	$ 735	$359,096
Home equity lines and loans	74	—	—	74	27,423	27,497	241	27,738
Residential mortgage	743	179	—	922	84,641	85,563	802	86,365
Construction	—	—	—	—	19,802	19,802	—	19,802
Commercial and industrial	64	—	—	64	103,878	103,942	857	104,799
Consumer	—	—	—	—	2,901	2,901	75	2,976
Leases	344	137	—	481	27,175	27,656	883	28,539
Total acquired portfolio loans and leases	$1,225	$2,708	$ —	$3,933	$621,789	$625,722	$ 3,593	$629,315

As of December 31, 2017 (dollars in thousands)	Accruing Loans and Leases 30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$111	$2,347	$ —	$2,458	$397,810	$400,268	$ 782	$401,050
Home equity lines and loans	312	10	—	322	34,410	34,732	260	34,992
Residential mortgage	665	79	—	744	94,295	95,039	2,912	97,951
Construction	—	—	—	—	84,188	84,188	—	84,188
Commercial and industrial	219	50	—	269	128,859	129,128	880	130,008
Consumer	1,085	—	—	1,085	1,922	3,007	—	3,007

Leases	—	—	—	—	47,366	47,366	—	47,366
Total acquired portfolio loans and leases	$2,392	$2,486	$ —	$4,878	$788,850	$793,728	$ 4,834	$798,562

*Included as “current” are $0 and $102 thousand of loans and leases as of September 30, 2018 and December 31, 2017, respectively, which are classified as administratively delinquent. An administratively delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. Management does not consider these loans to be delinquent.

Table of Contents

F. Allowance for Loan and Lease Losses (the “Allowance”)

The following tables detail the roll-forward of the Allowance for the three and nine months ended September 30, 2018 and 2017:

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Balance, December 31, 2017	$ 7,550	$ 1,086	$ 1,926	$ 937	$ 5,038	$ 246	$ 742	$ —	$ 17,525
Charge-offs	(74)	(225)	(42)	—	(1,069)	(165)	(2,416)	—	(3,991)
Recoveries	8	1	55	1	17	5	232	—	319
Provision for loan and lease losses	60	30	(121)	303	1,319	232	3,008	—	4,831
Balance, September 30, 2018	$ 7,544	$ 892	$ 1,818	$ 1,241	$ 5,305	$ 318	$ 1,566	$ —	$ 18,684

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Balance, June 30, 2018	$ 8,033	$ 933	$ 1,933	$ 1,158	$ 5,672	$ 289	$ 1,380	$ —	$ 19,398
Charge-offs	(58)	—	(42)	—	(319)	(73)	(1,068)	—	(1,560)
Recoveries	2	—	54	—	16	2	108	—	182
Provision for loan and lease losses	(433)	(41)	(127)	83	(64)	100	1,146	—	664
Balance, September 30, 2018	$ 7,544	$ 892	$ 1,818	$ 1,241	$ 5,305	$ 318	$ 1,566	$ —	$ 18,684

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Balance, December 31, 2016	$ 6,227	$ 1,255	$ 1,917	$ 2,233	$ 5,142	$ 153	$ 559	$ —	$ 17,486
Charge-offs	—	(676)	(158)	—	(560)	(96)	(924)	—	(2,414)
Recoveries	9	—	85	3	18	5	271	—	391
Provision for loan and lease losses	1,096	513	(23)	(1,306)	280	148	833	—	1,541
Balance, September 30, 2017	$ 7,332	$ 1,092	$ 1,821	$ 930	$ 4,880	$ 210	$ 739	$ —	$ 17,004

Table of Contents

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Balance, June 30, 2017	$ 6,608	$ 1,214	$ 1,776	$ 1,111	$ 4,813	$ 177	$ 700	$ —	$ 16,399
Charge-offs	—	(69)	(88)	—	(301)	(37)	(411)	—	(906)
Recoveries	3	—	85	1	2	1	86	—	178
Provision for loan and lease losses	721	(53)	48	(182)	366	69	364	—	1,333
Balance, September 30, 2017	$ 7,332	$ 1,092	$ 1,821	$ 930	$ 4,880	$ 210	$ 739	$ —	$ 17,004

The following tables detail the allocation of the Allowance for all portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of September 30, 2018 and December 31, 2017:

As of September 30, 2018 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Allowance on loans and leases:									
Individually evaluated for impairment	$ —	$ 19	$ 228	$ —	$ 11	$ 20	$ —	$ —	$ 278
Collectively evaluated for impairment	7,544	873	1,590	1,241	5,294	298	1,566	—	18,406
Purchased credit-impaired[(1)]	—	—	—	—	—	—	—	—	—
Total	$ 7,544	$ 892	$ 1,818	$ 1,241	$ 5,305	$ 318	$ 1,566	$ —	$ 18,684

[(1)] Purchased credit-impaired loans are evaluated for impairment on an individual basis.

As of December 31, 2017 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Allowance on loans and leases:									
Individually evaluated for impairment	$ —	$ 19	$ 230	$ —	$ 5	$ 4	$ —	$ —	$ 258
Collectively evaluated for impairment	7,550	1,067	1,696	937	5,033	242	742	—	17,267
Purchased credit-impaired[(1)]	—	—	—	—	—	—	—	—	—
Total	$ 7,550	$ 1,086	$ 1,926	$ 937	$ 5,038	$ 246	$ 742	$ —	$ 17,525

[(1)] Purchased credit-impaired loans are evaluated for impairment on an individual basis.

Table of Contents

The following tables detail the carrying value for all portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of September 30, 2018 and December 31, 2017:

As of September 30, 2018 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Carrying value of loans and leases:								
Individually evaluated for impairment	$736	$2,602	$5,940	$291	$1,757	$144	$—	$11,470
Collectively evaluated for impairment	1,609,375	204,694	461,462	175,802	705,015	47,665	138,473	3,342,486
Purchased credit-impaired(1)	8,382	510	—	2,400	16,227	—	—	27,519
Total	$1,618,493	$207,806	$467,402	$178,493	$722,999	$47,809	$138,473	$3,381,475

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

As of December 31, 2017 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Carrying value of loans and leases:								
Individually evaluated for impairment	$2,128	$2,162	$7,726	$—	$1,897	$27	$—	$13,940
Collectively evaluated for impairment	1,503,825	215,604	451,160	204,088	712,865	38,126	115,401	3,241,069
Purchased credit-impaired(1)	17,424	509	—	8,366	4,550	—	—	30,849
Total	$1,523,377	$218,275	$458,886	$212,454	$719,312	$38,153	$115,401	$3,285,858

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

The following tables detail the allocation of the Allowance for originated portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of September 30, 2018 and December 31, 2017:

As of September 30, 2018 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Allowance on loans and leases:								
Individually evaluated for impairment	$ —	$ 19	$ 179	$ —	$ 4	$ 4	$—	$206
	7,544	873	1,590	1,241	5,294	298	1,566	18,406

Collectively evaluated for impairment								
Total	$ 7,544	$ 892	$ 1,769	$ 1,241	$ 5,298	$ 302	$1,566	$18,612

Table of Contents

As of December 31, 2017 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Allowance on loans and leases:								
Individually evaluated for impairment	$ —	$ 19	$ 180	$ —	$ 5	$ 4	$ —	$ 208
Collectively evaluated for impairment	7,550	1,067	1,696	937	5,033	242	742	17,267
Total	$ 7,550	$ 1,086	$ 1,876	$ 937	$ 5,038	$ 246	$ 742	$ 17,475

The following tables detail the carrying value for originated portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of September 30, 2018 and December 31, 2017:

As of September 30, 2018 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Carrying value of loans and leases:								
Individually evaluated for impairment	$ —	$ 2,361	$ 4,268	$ 291	$ 1,294	$ 68	$ —	$ 8,282
Collectively evaluated for impairment	1,259,397	177,707	376,769	158,400	616,906	44,765	109,934	2,743,878
Total	$ 1,259,397	$ 180,068	$ 381,037	$ 158,691	$ 618,200	$ 44,833	$ 109,934	$ 2,752,160

As of December 31, 2017 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 1,345	$ 1,902	$ 4,418	$ —	$ 1,186	$ 27	$ —	$ 8,878
Collectively evaluated for impairment	1,120,982	181,381	356,517	128,266	588,118	35,119	68,035	2,478,418
Total	$ 1,122,327	$ 183,283	$ 360,935	$ 128,266	$ 589,304	$ 35,146	$ 68,035	$ 2,487,296

The following tables detail the allocation of the Allowance for acquired portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of September 30, 2018 and December 31, 2017:

As of September 30, 2018 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total

Allowance on loans and leases:								
Individually evaluated for impairment	$ —	$ —	$ 49	$ —	$ 7	$ 16	$ —	$ 72
Collectively evaluated for impairment	—	—	—	—	—	—	—	—
Purchased credit-impaired[1]	—	—	—	—	—	—	—	—
Total	$ —	$ —	$ 49	$ —	$ 7	$ 16	$ —	$ 72

[1] Purchased credit-impaired loans are evaluated for impairment on an individual basis.

Table of Contents

As of December 31, 2017 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Allowance on loans and leases:								
Individually evaluated for impairment	$ —	$ —	$ 50	$ —	$ —	$ —	$ —	$ 50
Collectively evaluated for impairment	—	—	—	—	—	—	—	—
Purchased credit-impaired[1]	—	—	—	—	—	—	—	—
Total	$ —	$ —	$ 50	$ —	$ —	$ —	$ —	$ 50

[1] Purchased credit-impaired loans are evaluated for impairment on an individual basis.

The following tables detail the carrying value for acquired portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of September 30, 2018 and December 31, 2017:

As of September 30, 2018 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 736	$ 241	$ 1,672	$ —	$ 463	$ 76	$ —	$ 3,188
Collectively evaluated for impairment	349,978	26,987	84,693	17,402	88,109	2,900	28,539	598,608
Purchased credit-impaired[1]	8,382	510	—	2,400	16,227	—	—	27,519
Total	$ 359,096	$ 27,738	$ 86,365	$ 19,802	$ 104,799	$ 2,976	$ 28,539	$ 629,315

[1] Purchased credit-impaired loans are evaluated for impairment on an individual basis.

As of December 31, 2017 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 783	$ 260	$ 3,308	$ —	$ 711	$ —	$ —	$ 5,062
Collectively evaluated for impairment	382,843	34,223	94,643	75,822	124,747	3,007	47,366	762,651
Purchased credit-impaired[1]	17,424	509	—	8,366	4,550	—	—	30,849
Total	$ 401,050	$ 34,992	$ 97,951	$ 84,188	$ 130,008	$ 3,007	$ 47,366	$ 798,562

[1] Purchased credit-impaired loans are evaluated for impairment on an individual basis.

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

- Pass – Loans considered satisfactory with no indications of deterioration.

Table of Contents

- Special mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- Substandard - Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

In addition, for the remaining segments of the loan and lease portfolio, which include residential mortgage, home equity lines and loans, consumer, and leases, the credit quality indicator used to determine this component of the Allowance is based on performance status.

The following tables detail the carrying value of all portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of September 30, 2018 and December 31, 2017:

Credit Risk Profile by Internally Assigned Grade

	Commercial Mortgage		Construction		Commercial and Industrial		Total	
(dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Pass	$1,592,174	$1,490,862	$168,897	$193,227	$697,913	$711,145	$2,458,984	$2,395,234
Special Mention	2,321	13,448	934	3,902	2,425	889	5,680	18,239
Substandard	23,447	18,194	8,662	15,325	22,660	6,013	54,769	39,532
Doubtful	551	873	—	—	1	1,265	552	2,138
Total	$1,618,493	$1,523,377	$178,493	$212,454	$722,999	$719,312	$2,519,985	$2,455,143

Credit Risk Profile by Payment Activity

	Residential Mortgage		Home Equity Lines and Loans		Consumer		Leases		Total	
(dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Performing	$464,632	$454,469	$205,873	$216,794	$47,692	$38,153	$137,111	$115,298	$855,308	$824,714
Non-performing	2,770	4,417	1,933	1,481	117	—	1,362	103	6,182	6,001
Total	$467,402	$458,886	$207,806	$218,275	$47,809	$38,153	$138,473	$115,401	$861,490	$830,715

The following tables detail the carrying value of originated portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of September 30, 2018 and December 31, 2017:

Credit Risk Profile by Internally Assigned Grade

	Commercial Mortgage		Construction		Commercial and Industrial		Total	
(dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017

Pass	$1,252,916	$1,114,171	$152,429	$126,260	$610,730	$586,896	$2,016,075	$1,827,327
Special Mention	—	—	—	—	2,198	664	2,198	664
Substandard	6,481	8,156	6,262	2,006	5,271	1,389	18,014	11,551
Doubtful	—	—	—	—	1	355	1	355
Total	$1,259,397	$1,122,327	$158,691	$128,266	$618,200	$589,304	$2,036,288	$1,839,897

Table of Contents

Credit Risk Profile by Payment Activity

	Residential Mortgage		Home Equity Lines and Loans		Consumer		Leases		Total	
(dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Performing	$379,069	$359,430	$178,376	$182,062	$44,791	$35,146	$109,455	$67,932	$711,691	$644,570
Non-performing	1,968	1,505	1,692	1,221	42	—	479	103	4,181	2,829
Total	$381,037	$360,935	$180,068	$183,283	$44,833	$35,146	$109,934	$68,035	$715,872	$647,399

The following tables detail the carrying value of acquired portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of September 30, 2018 and December 31, 2017:

Credit Risk Profile by Internally Assigned Grade

	Commercial Mortgage		Construction		Commercial and Industrial		Total	
(dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Pass	$339,258	$376,691	$16,468	$ 66,967	$87,183	$124,249	$442,909	$567,907
Special Mention	2,321	13,448	934	3,902	227	225	3,482	17,575
Substandard	16,966	10,038	2,400	13,319	17,389	4,624	36,755	27,981
Doubtful	551	873	—	—	—	910	551	1,783
Total	$359,096	$401,050	$19,802	$ 84,188	$104,799	$130,008	$483,697	$615,246

Credit Risk Profile by Payment Activity

	Residential Mortgage		Home Equity Lines and Loans		Consumer		Leases		Total	
(dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Performing	$85,563	$95,039	$27,497	$34,732	$2,901	$ 3,007	$27,656	$47,366	$143,617	$180,144
Non-performing	802	2,912	241	260	75	—	883	—	2,001	3,172
Total	$86,365	$97,951	$27,738	$34,992	$2,976	$ 3,007	$28,539	$47,366	$145,618	$183,316

G. Troubled Debt Restructurings (“TDRs”)

The restructuring of a loan is considered a “troubled debt restructuring” if both of the following conditions are met: (i) the borrower is experiencing financial difficulties, and (ii) the creditor has granted a concession. The most common concessions granted include one or more modifications to the terms of the debt, such as (a) a reduction in the interest rate for the remaining life of the debt, (b) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (c) a temporary period of interest-only payments, (d) a reduction in the contractual payment amount for either a short period or remaining term of the loan, and (e) for leases, a reduced lease payment. A less common concession granted is the forgiveness of a portion of the principal.

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

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

(dollars in thousands)	September 30, 2018	December 31, 2017
TDRs included in nonperforming loans and leases	$ 1,208	$ 3,289
TDRs in compliance with modified terms	4,316	5,800
Total TDRs	$ 5,524	$ 9,089

The following table presents information regarding loan and lease modifications categorized as TDRs for the three months ended September 30, 2018:

	For the Three Months Ended September 30, 2018		
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Home equity loans and lines	—	$ —	$ —
Residential mortgages	4	406	430
Leases	—	—	—
Total	4	$ 406	$ 430

The following table presents information regarding the types of loan and lease modifications made for the three months ended September 30, 2018:

	Number of Contracts				
	Loan Term Extension	Interest Rate Change and Term Extension	Interest Rate Change and/or Interest-Only Period	Contractual Payment Reduction (Leases only)	Temporary Payment Deferral
Home equity loans and lines	—	—	—	—	—
Residential mortgages	1	—	—	—	3
Leases	—	—	—	—	—
Total	1	—	—	—	3

The following table presents information regarding loan and lease modifications categorized as TDRs for the nine months ended September 30, 2018:

	For the Nine Months Ended September 30, 2018		
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Home equity loans and lines	1	$ 8	$ 8
Residential mortgages	6	625	649
Commercial and industrial	1	18	18
Leases	2	33	33
Total	10	$ 684	$ 708

Page 30

Table of Contents

The following table presents information regarding the types of loan and lease modifications made for the nine months ended September 30, 2018:

	Number of Contracts				
	Loan Term Extension	Interest Rate Change and Term Extension	Interest Rate Change and/or Interest-Only Period	Contractual Payment Reduction (Leases only)	Temporary Payment Deferral
Home equity loans and lines	—	1	—	—	—
Residential mortgages	2	1	—	—	3
Commercial and industrial	—	1	—	—	—
Leases	—	—	—	2	—
Total	2	3	—	2	3

During the nine months ended September 30, 2018, one home equity line of credit with a principal balance of $25 thousand and one lease with a principal balance of $50 thousand, which had been previously modified to troubled debt restructurings defaulted and were charged off.

H. Impaired Loans

The following tables detail the recorded investment and principal balance of impaired loans by portfolio segment, their related Allowance and interest income recognized for the three and nine months ended September 30, 2018 and 2017 (purchased credit-impaired loans are not included in the tables):

As of and for the Three Months Ended September 30, 2018 (dollars in thousands)	Recorded Investment**	Principal Balance	Related Allowance	Average Principal Balance	Interest Income Recognized	Cash-Basis Interest Income Recognized
Impaired loans with related allowance:						
Home equity lines and loans	$ 567	$ 567	$ 19	$ 569	$ 6	$ —
Residential mortgage	1,699	1,699	228	1,702	20	—
Commercial and industrial	25	25	12	25	—	—
Consumer	58	58	19	58	—	—
Total	$ 2,349	$ 2,349	$ 278	$ 2,354	$ 26	$ —
Impaired loans without related allowance*:						
Commercial mortgage	$ 735	$ 793	$ —	$ 930	$ —	$ —
Home equity lines and loans	2,035	2,096	—	2,064	2	—
Residential mortgage	4,242	4,328	—	4,299	24	—
Construction	291	291	—	294	—	—
Commercial and industrial	1,733	2,665	—	2,138	5	—
Consumer	86	86	—	87	—	—
Total	$ 9,122	$ 10,259	$ —	$ 9,812	$ 31	$ —
Grand total	$ 11,471	$ 12,608	$ 278	$ 12,166	$ 57	$ —

*The table above does not include the recorded investment of $1.4 million of impaired leases without a related Allowance.

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

Table of Contents

As of and for the Nine Months Ended September 30, 2018 (dollars in thousands)	Recorded Investment**	Principal Balance	Related Allowance	Average Principal Balance	Interest Income Recognized	Cash-Basis Interest Income Recognized
Impaired loans with related allowance:						
Home equity lines and loans	$ 567	$ 567	$ 19	$ 572	$ 17	$ —
Residential mortgage	1,699	1,699	228	1,709	60	—
Commercial and industrial	25	25	12	29	1	—
Consumer	58	58	19	58	1	—
Total	$ 2,349	$ 2,349	$ 278	$ 2,368	$ 79	$ —
Impaired loans without related allowance*:						
Commercial mortgage	$ 735	$ 793	$ —	$ 825	$ 6	$ —
Home equity lines and loans	2,035	2,096	—	2,086	10	—
Residential mortgage	4,242	4,328	—	4,228	91	—
Construction	291	291		239	5	—
Commercial and industrial	1,733	2,665	—	2,236	56	—
Consumer	86	86		88	3	—
Total	$ 9,122	$ 10,259	$ —	$ 9,702	$ 171	$ —
Grand total	$ 11,471	$ 12,608	$ 278	$ 12,070	$ 250	$ —

*The table above does not include the recorded investment of $1.4 million of impaired leases without a related Allowance.

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

As of and for the Three Months Ended September 30, 2017 (dollars in thousands)	Recorded Investment**	Principal Balance	Related Allowance	Average Principal Balance	Interest Income Recognized	Cash-Basis Interest Income Recognized
Impaired loans with related allowance:						
Home equity lines and loans	$ 21	$ 21	$ 3	$ 21	$ —	$ —
Residential mortgage	1,770	1,770	116	1,776	23	—
Consumer	27	27	4	28	—	—
Total	$ 1,818	$ 1,818	$ 123	$ 1,825	$ 23	$ —
Impaired loans without related allowance*:						
Commercial mortgage	$ 1,449	$ 1,485	$ —	$ 1,451	$ 15	$ —
Home equity lines and loans	633	694	—	655	1	—
Residential mortgage	4,688	5,015	—	4,243	43	—
Commercial and industrial	1,940	2,796	—	2,605	2	—
Total	$ 8,710	$ 9,990	$ —	$ 8,954	$ 61	$ —
Grand total	$ 10,528	$ 11,808	$ 123	$ 10,779	$ 84	$ —

*The table above does not include the recorded investment of $270 thousand of impaired leases without a related Allowance.

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

Table of Contents

As of and for the Nine Months Ended September 30, 2017 (dollars in thousands)	Recorded Investment**	Principal Balance	Related Allowance	Average Principal Balance	Interest Income Recognized	Cash-Basis Interest Income Recognized
Impaired loans with related allowance:						
Home equity lines and loans	$ 21	$ 21	$ 3	$ 21	$ 1	$ —
Residential mortgage	1,770	1,770	116	1,797	67	—
Consumer	27	27	4	28	1	—
Total	$ 1,818	$ 1,818	$ 123	$ 1,846	$ 69	$ —
Impaired loans without related allowance*:						
Commercial mortgage	$ 1,449	$ 1,485	$ —	$ 1,475	$ 45	$ —
Home equity lines and loans	633	694	—	669	5	—
Residential mortgage	4,688	5,015	—	4,288	118	—
Commercial and industrial	1,940	2,796	—	2,746	34	—
Total	$ 8,710	$ 9,990	$ —	$ 9,178	$ 202	$ —
Grand total	$ 10,528	$ 11,808	$ 123	$ 11,024	$ 271	$ —

*The table above does not include the recorded investment of $270 thousand of impaired leases without a related Allowance.

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

(dollars in thousands) As of December 31, 2017	Recorded Investment (2)	Principal Balance	Related Allowance
Impaired loans with related allowance:			
Home equity lines and loans	$ 577	$ 577	$ 19
Residential mortgage	2,436	2,435	230
Commercial and industrial	18	19	5
Consumer	27	27	4
Total	$ 3,058	$ 3,058	$ 258
Impaired loans without related allowance(1):			
Home equity lines and loans	$ 1,585	$ 1,645	$ —
Residential mortgage	5,290	5,529	—
Commercial and industrial	1,879	3,613	—
Commercial mortgage	2,128	2,218	—
Total	$ 10,882	$ 13,005	$ —
Grand total	$ 13,940	$ 16,063	$ 258

(1) The table above does not include the recorded investment of $272 thousand of impaired leases without a related Allowance.

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

I. Loan Mark

Loans acquired in mergers and acquisitions are recorded at fair value as of the date of the transaction. This adjustment to the acquired principal amount is referred to as the “Loan Mark.” With the exception of purchased credit impaired loans, for which the Loan Mark is accounted under ASC 310-30, the Loan Mark is amortized or accreted as an adjustment to yield over the lives of the loans.

Table of Contents

The following tables detail, for acquired loans, the outstanding principal, remaining Loan Mark, and recorded investment, by portfolio segment, as of the dates indicated:

(dollars in thousands)	As of September 30, 2018 Outstanding Principal	Remaining Loan Mark	Recorded Investment
Commercial mortgage	$369,894	$(10,798)	$359,096
Home equity lines and loans	30,240	(2,502)	27,738
Residential mortgage	89,302	(2,937)	86,365
Construction	20,142	(340)	19,802
Commercial and industrial	111,799	(7,000)	104,799
Consumer	3,094	(118)	2,976
Leases	29,793	(1,254)	28,539
Total	$654,264	$(24,949)	$629,315

(dollars in thousands)	As of December 31, 2017 Outstanding Principal	Remaining Loan Mark	Recorded Investment
Commercial mortgage	$412,263	$(11,213)	$401,050
Home equity lines and loans	37,944	(2,952)	34,992
Residential mortgage	101,523	(3,572)	97,951
Construction	86,081	(1,893)	84,188
Commercial and industrial	141,960	(11,952)	130,008
Consumer	3,051	(44)	3,007
Leases	50,530	(3,164)	47,366
Total	$833,352	$(34,790)	$798,562

Note 6 - Mortgage Servicing Rights

The following table summarizes the Corporation’s activity related to mortgage servicing rights (“MSRs”) for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,	
(dollars in thousands)	2018	2017
Balance, beginning of period	$5,511	$5,682
Additions	—	282
Amortization	(206)	(229)
Recovery / (Impairment)	23	(3)
Balance, end of period	$5,328	$5,732
Fair value	$6,586	$6,146

	Nine Months Ended September 30,	
(dollars in thousands)	2018	2017
Balance, beginning of period	$5,861	$5,582
Additions	16	770
Amortization	(623)	(571)
Recovery / (Impairment)	74	(49)
Balance, end of period	$5,328	$5,732

Fair value	$6,586	$6,146
Residential mortgage loans serviced for others	$596,162	$647,997

Table of Contents

As of September 30, 2018, and December 31, 2017, key economic assumptions and the sensitivity of the current fair value of MSRs to immediate 10% and 20% adverse changes in those assumptions are as follows:

(dollars in thousands)	September 30, 2018	December 31, 2017
Fair value amount of MSRs	$ 6,586	$ 6,397
Weighted average life (in years)	6.6	6.1
Prepayment speeds (constant prepayment rate)*	8.7 %	10.3 %
Impact on fair value:		
10% adverse change	$ (85)	$ (194)
20% adverse change	$ (190)	$ (394)
Discount rate	9.55 %	9.55 %
Impact on fair value:		
10% adverse change	$ (245)	$ (225)
20% adverse change	$ (472)	$ (434)

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

At September 30, 2018 and December 31, 2017 the fair value of the MSRs was $6.6 million and $6.4 million, respectively. The fair value of the MSRs for these dates was determined using values obtained from a third party which utilizes a valuation model which calculates the present value of estimated future servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds and discount rates. Mortgage loan prepayment speed is the annual rate at which borrowers are forecasted to repay their mortgage loan principal and is based on historical experience. The discount rate is used to determine the present value of future net servicing income. Another key assumption in the model is the required rate of return the market would expect for an asset with similar risk. These assumptions can, and generally will, change quarterly valuations as market conditions and interest rates change. Management reviews, annually, the process utilized by its independent third-party valuation experts.

These assumptions and sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the 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.

Note 7 - Goodwill and Intangible Assets

The following table presents activity in the Corporation's goodwill by its reporting units and finite-lived and indefinite-lived intangible assets, other than MSRs, for the nine months ended September 30, 2018:

(dollars in thousands)	Balance December 31, 2017	Additions	Adjustments	Amortization	Balance September 30, 2018	Amortization Period
Goodwill – Wealth	$ 20,412	$ —	$ —	$ —	$ 20,412	Indefinite
Goodwill – Banking	153,545	—	3,298	—	156,843	Indefinite
Goodwill – Insurance	5,932	677	—	—	6,609	Indefinite
Total Goodwill	$ 179,889	$ 677	$ 3,298	$ —	$ 183,864	
Core deposit intangible	$ 7,380	$ —	$ —	$ (1,108)	$ 6,272	10 years
Customer relationships	14,173	994	—	(1,271)	13,896	10 to 20 years
Non-compete agreements	1,319	—	—	(171)	1,148	5 to 10 years
Trade name	2,322	—	—	(49)	2,273	3 years to Indefinite

Domain name	151	—	—	—	151	Indefinite
Favorable lease assets	621	—	—	(60)	561	1 to 16 years
Total Intangible Assets	$25,966	$ 994	$ —	$ (2,659)	$24,301	
Total Goodwill and Intangible Assets	$205,855	$ 1,671	$ 3,298	$ (2,659)	$208,165	

Table of Contents

Management conducted its annual impairment tests for goodwill and indefinite-lived intangible assets as of October 31, 2017 using generally accepted valuation methods. Management determined that no impairment of goodwill or indefinite-lived intangible assets was identified as a result of the annual impairment analyses. Future impairment testing will be conducted each October 31, unless a triggering event occurs in the interim that would suggest possible impairment, in which case it would be tested as of the date of the triggering event. For the eleven months ended September 30, 2018, management determined there were no events that would necessitate impairment testing of goodwill or indefinite-lived intangible assets.

Note 8 - Deposits

The following table details the components of deposits:

	September 30, 2018	December 31, 2017
(dollars in thousands)		
Interest-bearing demand	$ 578,243	$ 481,336
Money market	812,027	862,639
Savings	286,266	338,572
Retail time deposits	561,123	532,202
Wholesale non-maturity deposits	24,040	62,276
Wholesale time deposits	261,164	171,929
Total interest-bearing deposits	$ 2,522,863	$ 2,448,954
Noninterest-bearing deposits	834,363	924,844
Total deposits	$ 3,357,226	$ 3,373,798

Table of Contents

Note 9 - Short-Term Borrowings and Long-Term FHLB Advances

A. Short-term borrowings

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

A summary of short-term borrowings is as follows:

(dollars in thousands)	September 30, 2018	December 31, 2017
Repurchase agreements* – commercial customers	$ 21,548	$ 25,865
Short-term FHLB advances	204,950	212,000
Total short-term borrowings	$ 226,498	$ 237,865

* Overnight repurchase agreements with no expiration date

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2018	2017	2018	2017
Balance at period-end	$226,498	$180,874	$226,498	$180,874
Maximum amount outstanding at any month end	$302,932	$184,578	$302,932	$184,578
Average balance outstanding during the period	$218,551	$182,845	$205,046	$110,268
Weighted-average interest rate:				
As of the period-end	2.18 %	1.17 %	2.18 %	1.17 %
Paid during the period	2.09 %	1.19 %	1.85 %	0.98 %

Average balances outstanding during the year represent daily average balances and average interest rates represent interest expense divided by the related average balance.

B. Long-term FHLB Advances

As of September 30, 2018 and December 31, 2017, the Corporation had $72.8 million and $139.1 million, respectively, of long-term FHLB advances (original maturities exceeding one year).

The following table presents the remaining periods until maturity of long-term FHLB advances:

(dollars in thousands)	September 30, 2018	December 31, 2017
Within one year	$ 28,106	$ 83,766
Over one year through five years	44,735	55,374
Total	$ 72,841	$ 139,140

Table of Contents

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

Description	Maturity Range[1] From	To	Weighted Average Rate[1]	Coupon Rate[1] From	To	Balance at September 30, 2018	December 31, 2017
Bullet maturity – fixed rate	10/1/2018	1/2/2020	1.32 %	1.31 %	2.45 %	$72,841	$ 118,131
Convertible-fixed[2]	N/A	N/A	N/A	N/A	N/A	—	21,009
Total						$72,841	$ 139,140

(1)Maturity range, weighted average rate and coupon rate range refers to September 30, 2018 balances.
(2) FHLB advances whereby the FHLB has the option, at predetermined times, to convert the fixed interest rate to an adjustable interest rate indexed to the London Interbank Offered Rate ("LIBOR"). The Corporation has the option to prepay these advances, without penalty, if the FHLB elects to convert the interest rate to an adjustable rate. As of September 30, 2018, the Corporation held no FHLB advances with this convertible feature.

C. Other Borrowings Information

In connection with its FHLB borrowings, the Corporation is required to hold the capital stock of the FHLB. The amount of capital stock held was $14.7 million at September 30, 2018, and $20.1 million at December 31, 2017. The carrying amount of the FHLB stock approximates its redemption value.

The level of required investment in FHLB stock is based on the balance of outstanding borrowings the Corporation has from the FHLB. Although FHLB stock is a financial instrument that represents an equity interest in the FHLB, it does not have a readily determinable fair value. FHLB stock is generally viewed as a long-term investment. Accordingly, when evaluating FHLB stock for impairment, its value should be determined based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

The Corporation had a maximum borrowing capacity with the FHLB of $1.50 billion as of September 30, 2018 of which the unused capacity was $1.20 billion. In addition, there were $79.0 million in the overnight federal funds line available and $139.6 million of Federal Reserve Discount Window capacity.

Note 10 – Subordinated Notes

On December 13, 2017, the Corporation completed the issuance of $70.0 million in aggregate principal amount of fixed-to-floating rate subordinated notes due 2027 (the "2027 Notes") in an underwritten public offering. On August 6, 2015, the Corporation completed the issuance of $30.0 million in aggregate principal amount of fixed-to-floating rate subordinated notes due 2025 (the "2025 Notes") in a private placement transaction to institutional accredited investors. The net proceeds of both offerings increased Tier II regulatory capital at the Corporation level.

The following tables detail the subordinated notes, including debt issuance costs, as of September 30, 2018, and December 31, 2017:

(dollars in thousands)	September 30, 2018 Balance	Rate[1][2]	December 31, 2017 Balance	Rate[1][2]
Subordinated notes – due 2027	$68,855	4.25 %	$68,829	4.25 %
Subordinated notes – due 2025	29,627	4.75 %	29,587	4.75 %
Total subordinated notes	$98,482		$98,416	

(1)The 2027 Notes bear interest at an annual fixed rate of 4.25% from the date of issuance until December 14, 2022, and will thereafter bear interest at a variable rate that will reset quarterly to a level equal to the then-current three-month LIBOR rate plus 2.050% until December 15, 2027, or any early redemption date.

(2)The 2025 Notes bear interest at an annual fixed rate of 4.75% from the date of issuance until August 14, 2020, and will thereafter bear interest at a variable rate that will reset quarterly to a level equal to the then-current three-month LIBOR rate plus 3.068% until August 15, 2025, or any early redemption date.

Table of Contents

Note 11 – Junior Subordinated Debentures

In connection with the RBPI Merger, the Corporation acquired Royal Bancshares Capital Trust I ("Trust I") and Royal Bancshares Capital Trust II ("Trust II") (collectively, the "Trusts"), which were utilized for the sole purpose of issuing and selling capital securities representing preferred beneficial interests. Although the Corporation owns $774 thousand of the common securities of Trust I and Trust II, the Trusts are not consolidated into the Corporation's Consolidated Financial Statements as the Corporation is not deemed to be the primary beneficiary of these entities. In connection with the issuance and sale of the capital securities, RBPI issued, and the Corporation assumed as a result of the RBPI Merger, junior subordinated debentures to the Trusts of $10.7 million each, totaling $21.4 million representing the Corporation's maximum exposure to loss. The junior subordinated debentures incur interest at a coupon rate of 4.48% as of September 30, 2018. The rate resets quarterly based on 3-month LIBOR plus 2.15%.

Each of Trust I and Trust II issued an aggregate principal amount of $12.5 million of capital securities initially bearing fixed and/or fixed/floating interest rates corresponding to the debt securities held by each trust to an unaffiliated investment vehicle and an aggregate principal amount of $387 thousand of common securities bearing fixed and/or fixed/floating interest rates corresponding to the debt securities held by each trust to the Corporation. As a result of the RBPI Merger, the Corporation has fully and unconditionally guaranteed all of the obligations of the Trusts, including any distributions and payments on liquidation or redemption of the capital securities.

The rights of holders of common securities of the Trusts are subordinate to the rights of the holders of capital securities only in the event of a default; otherwise, the common securities' economic and voting rights are pari passu with the capital securities. The capital and common securities of the Trusts are subject to mandatory redemption upon the maturity or call of the junior subordinated debentures held by each. Unless earlier dissolved, the Trusts will dissolve on December 15, 2034. The junior subordinated debentures are the sole assets of Trusts, mature on December 15, 2034, and may be called at par by the Corporation any time after December 15, 2009. The Corporation records its investments in the Trusts' common securities of $387 thousand each as investments in unconsolidated entities and records dividend income upon declaration by Trust I and Trust II.

Note 12 – Derivative Instruments and Hedging Activities

Derivative financial instruments involve, to varying degrees, interest rate, market and credit risk. Management manages these risks as part of its asset and liability management process and through credit policies and procedures. Management seeks to minimize counterparty credit risk by establishing credit limits and collateral agreements and utilizes certain derivative financial instruments to enhance its ability to manage interest rate risk that exists as part of its ongoing business operations. The derivative transactions entered into by the Corporation are an economic hedge of a derivative offerings to Bank customers. The Corporation does not use derivative financial instruments for trading purposes.

Customer Derivatives – Interest Rate Swaps. The Corporation enters into interest rate swaps that allow commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Corporation originates variable-rate loans with customers in addition to interest rate swap agreements, which serve to effectively swap the customers' variable-rate loans into fixed-rate loans. The Corporation then enters into corresponding swap agreements with swap dealer counterparties to economically hedge its exposure on the variable and fixed components of the customer agreements. The interest rate swaps with both the customers and third parties are not designated as hedges under FASB ASC 815 and are marked to market through earnings. As the interest rate swaps are structured to offset each other, changes to the underlying benchmark interest rates considered in the valuation of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit quality variations between counterparties, which may impact earnings as required by FASB ASC 820. As of September 30, 2018, there were no fair value adjustments related to credit quality.

Risk Participation Agreements. The Corporation may enter into a risk participation agreement (“RPA”) with another institution as a means to assume a portion of the credit risk associated with a loan structure which includes a derivative instrument, in exchange for fee income commensurate with the risk assumed. This type of derivative is referred to as an “RPA sold.” In addition, in an effort to reduce the credit risk associated with an interest rate swap agreement with a borrower for whom the Corporation has provided a loan structured with a derivative, the Corporation may purchase an RPA from an institution participating in the facility in exchange for a fee commensurate with the risk shared. This type of derivative is referred to as an “RPA purchased.”

Table of Contents

The following tables detail the derivative instruments as of September 30, 2018 and December 31, 2017:

	Asset Derivatives		Liability Derivatives	
(dollars in thousands)	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivatives not designated as hedging instruments				
As of September 30, 2018:				
Customer derivatives – interest rate swaps	$295,566	$5,843	$295,566	$5,843
RPAs sold	—	—	865	1
RPAs purchased	35,464	43	—	—
Total derivatives	$331,030	$5,886	$296,431	$5,844
As of December 31, 2017:				
Customer derivatives – interest rate swaps	$124,627	$1,895	$124,627	$1,895
RPAs sold	—	—	899	3
RPAs purchased	14,710	21	—	—
Total derivatives	$139,337	$1,916	$125,526	$1,898

The Corporation has International Swaps and Derivatives Association agreements with third parties that requires a minimum dollar transfer amount upon a margin call. This requirement is dependent on certain specified credit measures. The amount of collateral posted with third parties at September 30, 2018 and December 31, 2017 was $420 thousand and $1.3 million, respectively. The amount of collateral posted with third parties is deemed to be sufficient to collateralize both the fair market value change as well as any additional amounts that may be required as a result of a change in the specified credit measures. The aggregate fair value of all derivative financial instruments in a liability position with credit measure contingencies and entered into with third parties was $1.8 million and $1.6 million as of September 30, 2018 and December 31, 2017, respectively.

Note 13 - Accounting for Uncertainty in Income Taxes

The Corporation recognizes the financial statement benefit of a tax position only after determining that the Corporation would be more likely than not to sustain the position following an examination. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the relevant tax authority.

The Corporation is subject to income taxes in the United States federal jurisdiction and multiple state jurisdictions. The Corporation is no longer subject to U.S. federal income tax examination by taxing authorities for years before 2014.

The Corporation’s policy is to record interest and penalties on uncertain tax positions as income tax expense. No interest or penalties were accrued for the three or nine months ended September 30, 2018 or 2017.

Note 14 - Shareholders’ Equity

Dividend

On October 17, 2018, the Corporation’s Board of Directors declared a regular quarterly dividend of $0.25 per share payable December 1, 2018 to shareholders of record as of November 1, 2018. During the third quarter of 2018, the Corporation paid or accrued, as applicable, a regular quarterly dividend of $0.25 per share. This dividend totaled $5.1 million, based on outstanding shares and restricted stock units as of August 1, 2018 of 20,443,918 shares.

S-3 Shelf Registration Statement and Offerings Thereunder

In May 2018, the Corporation filed a shelf registration statement on Form S-3, SEC File No. 333-224849 (the “Shelf Registration Statement”). The Shelf Registration Statement allows the Corporation to raise additional capital from time to time through offers and sales of registered securities consisting of common stock, debt securities, warrants, purchase contracts, rights and units or units consisting of any combination of the foregoing securities. The Corporation may sell these securities using the prospectus in the Shelf Registration Statement, together with applicable prospectus supplements, from time to time, in one or more offerings.

Table of Contents

In addition, the Corporation has in place a Dividend Reinvestment and Stock Purchase Plan (the “Plan”), which allows it to issue up to 1,500,000 shares of registered common stock. The Plan allows for the grant of a request for waiver (“RFW”) above the Plan’s maximum investment of $120 thousand per account per year. A RFW is granted based on a variety of factors, including the Corporation’s current and projected capital needs, prevailing market prices of the Corporation’s common stock and general economic and market conditions.

For the three and nine months ended September 30, 2018, the Corporation did not issue any shares under the Plan. No RFWs were approved during the three and nine months ended September 30, 2018. No other sales of equity securities were executed under the Shelf Registration Statement during the three and nine months ended September 30, 2018.

Option Exercises and Vesting of Restricted Stock Units ("RSUs") and Performance Stock Units ("PSUs")

In addition to shares that may be issued through the Plan, the Corporation also issues shares through the exercise of stock options and the vesting of RSUs and PSUs. During the three and nine months ended September 30, 2018, 15,150 shares and 63,825 shares, respectively, were issued pursuant to the exercise of stock options, increasing shareholders’ equity by $349 thousand and $1.5 million, respectively. The increase in shareholders’ equity related to the vesting of RSUs and PSUs, which is recognized over the vesting period through stock based compensation expense, was $708 thousand and $1.9 million for the three and nine months ended September 30, 2018, respectively.

Stock Repurchases

On August 6, 2015, the Corporation announced a stock repurchase program (the “2015 Program”) under which the Corporation may repurchase up to 1,200,000 shares of the Corporation’s common stock, at an aggregate purchase price not to exceed $40 million. During the three months ended September 30, 2018, 14,263 shares were repurchased under the 2015 Program. As of September 30, 2018, the maximum number of shares remaining authorized for repurchase under the 2015 Program was 175,037. In addition to the 2015 Program, it is the Corporation’s practice to retire shares to its treasury account upon the vesting of stock awards to certain officers in order to cover the statutory income tax withholdings related to such vestings.

Table of Contents

Note 15 – Accumulated Other Comprehensive (Loss) Income

The following table details the components of accumulated other comprehensive (loss) income for the three and nine month periods ended September 30, 2018 and 2017:

(dollars in thousands)	Net Change in Unrealized Gains on Available-for-Sale Investment Securities	Net Change in Unfunded Pension Liability	Accumulated Other Comprehensive Loss
Balance, June 30, 2018	$ (9,669)	$ (1,522)	$ (11,191)
Other comprehensive (loss) income	(2,319)	108	(2,211)
Balance, September 30, 2018	$ (11,988)	$ (1,414)	$ (13,402)
Balance, June 30, 2017	$ (433)	$ (1,131)	$ (1,564)
Other comprehensive income	149	15	164
Balance, September 30, 2017	$ (284)	$ (1,116)	$ (1,400)

(dollars in thousands)	Net Change in Unrealized Gains on Available-for-Sale Investment Securities	Net Change in Unfunded Pension Liability	Accumulated Other Comprehensive Loss
Balance, December 31, 2017	$ (2,861)	$ (1,553)	$ (4,414)
Other comprehensive (loss) income	(9,127)	139	(8,988)
Balance, September 30, 2018	$ (11,988)	$ (1,414)	$ (13,402)
Balance, December 31, 2016	$ (1,231)	$ (1,178)	$ (2,409)
Other comprehensive income	947	62	1,009
Balance, September 30, 2017	$ (284)	$ (1,116)	$ (1,400)

The following table details the amounts reclassified from each component of accumulated other comprehensive loss to each component's applicable income statement line, for the three and nine month periods ended September 30, 2018 and 2017:

Description of Accumulated Other Comprehensive Loss Component	Amount Reclassified from Accumulated Other Comprehensive Loss Three Months Ended September 30,	Affected Income Statement Category

	2018	2017	
Net unrealized gain on investment securities available for sale:			
Realization of gain on sale of investment securities available for sale	$ —	$ 72	Net gain on sale of available for sale investment securities
Realization of gain on transfer of investment securities available for sale to trading	—	—	Other operating income
Total	$ —	$ 72	
Income tax effect	—	25	Income tax expense
Net of income tax	$ —	$ 47	Net income
Unfunded pension liability:			
Amortization of net loss included in net periodic pension costs*	$ 25	$ 24	Other operating expenses
Income tax effect	5	8	Income tax expense
Net of income tax	$ 20	$ 16	Net income

Table of Contents

Description of Accumulated Other Comprehensive Loss Component	Amount Reclassified from Accumulated Other Comprehensive Loss Nine Months Ended September 30, 2018	2017	Affected Income Statement Category
Net unrealized gain on investment securities available for sale:			
Realization of gain on sale of investment securities available for sale	$ 7	$ 73	Net gain on sale of available for sale investment securities
Realization of gain on transfer of investment securities available for sale to trading	417	—	Other operating income
Total	$ 424	$ 73	
Income tax effect	89	27	Income tax expense
Net of income tax	$ 335	$ 46	Net income
Unfunded pension liability:			
Amortization of net loss included in net periodic pension costs*	$ 75	$ 71	Other operating expenses
Income tax effect	15	25	Income tax expense
Net of income tax	$ 60	$ 46	Net income

*Accumulated other comprehensive loss components are included in the computation of net periodic pension cost.

Note 16 - Earnings per Common Share

Basic earnings per common share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted earnings per common share takes into account the potential dilution that would occur if in-the-money stock options were exercised and converted into common shares and RSUs and PSUs were vested. Proceeds assumed to have been received on option exercises are assumed to be used to purchase shares of the Corporation's common stock at the average market price during the period, as required by the treasury stock method of accounting. The effects of stock options are excluded from the computation of diluted earnings per share in periods in which the effect would be antidilutive.

(dollars in thousands except share and per share data)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Numerator:				
Net income available to common shareholders	$16,682	$ 10,739	$46,656	$ 29,216
Denominator for basic earnings per share – weighted average shares outstanding	20,270,701	17,023,046	20,237,757	16,987,499
Effect of dilutive common shares	167,670	230,936	206,318	254,728
Denominator for diluted earnings per share – adjusted weighted average shares outstanding	20,438,371	17,253,982	20,444,075	17,242,227

Basic earnings per share	$0.82	$ 0.63	$2.31	$ 1.72
Diluted earnings per share	$0.82	$ 0.62	$2.28	$ 1.69
Antidilutive shares excluded from computation of average dilutive earnings per share	22,232	21,621	48,807	47,268

Table of Contents

Note 17 - Revenue from Contracts with Customers

All of the Corporation's revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income. The following table presents the Corporation's noninterest income by revenue stream and reportable segment for the three and nine months ended September 30, 2018 and 2017. Items outside the scope of ASC 606 are noted as such.

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
(dollars in thousands)	Banking	Wealth Management	Consolidated	Banking	Wealth Management	Consolidated
Fees for wealth management services	$—	$ 10,343	$ 10,343	$—	$ 9,651	$ 9,651
Insurance commissions	—	1,754	1,754	—	1,373	1,373
Capital markets revenue(1)	710	—	710	843	—	843
Service charges on deposit accounts	726	—	726	676	—	676
Loan servicing and other fees(1)	559	—	559	548	—	548
Net gain on sale of loans(1)	631	—	631	799	—	799
Net gain on sale of investment securities available for sale(1)	—	—	—	72	—	72
Net gain on sale of other real estate owned	5	—	5	—	—	—
Dividends on FHLB and FRB stock(1)	375	—	375	217	—	217
Other operating income(2)	3,123	48	3,171	1,364	41	1,405
Total noninterest income	$6,129	$ 12,145	$ 18,274	$4,519	$ 11,065	$ 15,584

(1) Not within the scope of ASC 606.

(2) Other operating income includes Visa debit card income, safe deposit box rentals, and rent income totaling $595 thousand and $520 thousand for the three months ended September 30, 2018 and 2017, respectively, which are within the scope of ASC 606.

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
(dollars in thousands)	Banking	Wealth Management	Consolidated	Banking	Wealth Management	Consolidated
Fees for wealth management services	$—	$ 31,309	$ 31,309	$—	$ 28,761	$ 28,761
Insurance commissions	—	5,349	5,349	—	3,079	3,079
Capital markets revenue(1)	3,481	—	3,481	1,796	—	1,796
Service charges on deposit accounts	2,191	—	2,191	1,953	—	1,953
Loan servicing and other fees(1)	1,720	—	1,720	1,570	—	1,570
Net gain on sale of loans(1)	1,677	—	1,677	1,948	—	1,948
Net gain on sale of investment securities available for sale(1)	7	—	7	73	—	73
Net gain (loss) on sale of other real estate owned	292	—	292	(12)	—	(12)
Dividends on FHLB and FRB stock(1)	1,316	—	1,316	649	—	649
Other operating income(2)	10,393	150	10,543	3,641	138	3,779
Total noninterest income	$21,077	$ 36,808	$ 57,885	$11,618	$ 31,978	$ 43,596

(1) Not within the scope of ASC 606.

(2) Other operating income includes Visa debit card income, safe deposit box rentals, and rent income totaling $1.7 million and $1.5 million for the nine months ended September 30, 2018 and 2017, respectively, which are within the scope of ASC 606.

Table of Contents

A description of the Corporation's revenue streams accounted for under ASC 606 follows:

Service Charges on Deposit Accounts: The Corporation earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Wealth Management Fees: The Corporation earns wealth management fee revenue from a variety of sources including fees from trust administration and other related fiduciary services, custody, investment management and advisory services, employee benefit account and IRA administration, estate settlement, tax service fees, shareholder service fees and brokerage.

Fees that are determined based on the market value of the assets held in their accounts are generally billed monthly, in arrears, based on the market value of assets at the end of the previous billing period. Other related services that are based on a fixed fee schedule are recognized when the services are rendered. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed, i.e. the trade date.

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

Insurance Commissions: The Corporation earns commissions from the sale of insurance policies, which are generally calculated as a percentage of the policy premium, and contingent income, which is calculated based on the volume and performance of the policies held by each carrier. Obligations for the sale of insurance policies are generally satisfied at the point in time which the policy is executed and are recognized at the point in time in which the amounts are known and collection is reasonably assured. Performance metrics for contingent income are generally satisfied over time, not exceeding one year, and are recognized at the point in time in which the amounts are known and collection is reasonably assured.

Visa Debit Card Income: The Corporation earns income fees from debit cardholder transactions conducted through the Visa payment network. Fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Gains/Losses on Sales of OREO: The Corporation records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed.

Note 18 – Stock-Based Compensation

A. General Information

The Corporation permits the issuance of stock options, dividend equivalents, performance stock awards, stock appreciation rights and restricted stock units or awards to employees and directors of the Corporation under several plans. The performance awards and restricted awards may be in the form of stock awards or stock units. Stock awards and stock units differ in that for a stock award, shares of restricted stock are issued in the name of the grantee, whereas a stock unit constitutes a promise to issue shares of stock upon vesting. The accounting for awards and units is identical. The terms and conditions of awards under the plans are determined by the Corporation's Management Development and Compensation Committee.

Prior to April 25, 2007, all shares authorized for grant as stock-based compensation were limited to grants of stock options. On April 25, 2007, the shareholders approved the Corporation's "2007 Long-Term Incentive Plan" (the "2007 LTIP") under which a total of 428,996 shares of the Corporation's common stock were made available for award grants. On April 28, 2010, the shareholders approved the Corporation's "2010 Long Term Incentive Plan" under which a total of 445,002 shares of the Corporation's common stock were made available for award grants and on April 30, 2015, the shareholders approved an amendment and restatement of such plan (as amended and restated, the "2010 LTIP") to, among other things, increase the number of shares available for award grants by 500,000 to 945,002.

In addition to the shareholder-approved plans mentioned in the preceding paragraph, the Corporation periodically authorizes grants of stock-based compensation as inducement awards to new employees. This type of award does not require shareholder approval in accordance with Rule 5635(c)(4) of the NASDAQ listing rules.

Table of Contents

The equity awards are authorized to be in the form of, among others, options to purchase the Corporation's common stock, RSUs and PSUs.

RSUs have a restriction based on the passage of time. The grant date fair value of the RSUs is based on the closing price on the date of the grant.

PSUs have restrictions based on performance criteria and the passage of time. The performance criteria may be a market-based criteria measured by the Corporation's total shareholder return ("TSR") relative to the performance of the community bank index for the respective period. The fair value of the PSUs based on the Corporation's TSR relative to the performance of a designated peer group or the NASDAQ Community Bank Index is calculated using the Monte Carlo Simulation method. The performance criteria may also be based on a non-market-based criteria such as return on average equity relative to that designated peer group. The grant date fair value of these PSUs is based on the closing price of the Corporation's stock on the date of the grant. PSU grants may have a vesting percent ranging from 0% to 150%.

B. Other Stock Option Information

The following table provides information about options outstanding for the three months ended September 30, 2018:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Options outstanding, June 30, 2018	66,571	$ 19.26	$ 4.71
Forfeited	—	—	—
Expired	—	—	—
Exercised	(15,150)	$ 23.02	$ 5.09
Options outstanding, September 30, 2018	51,421	$ 18.15	$ 4.60

The following table provides information about options outstanding for the nine months ended September 30, 2018:

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Options outstanding, December 31, 2017	115,246	$ 20.73	$ 4.86
Forfeited	—	—	—
Expired	—	—	—
Exercised	(63,825)	$ 22.81	$ 5.06
Options outstanding, September 30, 2018	51,421	$ 18.15	$ 4.60

As of September 30, 2018 there were no unvested options.

Proceeds, related tax benefits realized from options exercised and intrinsic value of options exercised were as follows:

	Three Months Ended	Nine Months Ended September 30,

	September 30,			
(dollars in thousands)	2018	2017	2018	2017
Proceeds from exercise of stock options	$349	$283	$1,456	$1,288
Related tax benefit recognized	81	96	312	402
Net proceeds of options exercised	$430	$379	$1,768	$1,690
Intrinsic value of options exercised	$386	$273	$1,484	$1,147

Table of Contents

The following table provides information about options outstanding and exercisable at September 30, 2018:

(dollars in thousands, except share data and exercise price)	Outstanding	Exercisable
Number of shares	51,421	51,421
Weighted average exercise price	$ 18.15	$ 18.15
Aggregate intrinsic value	$ 1,478	$ 1,478
Weighted average remaining contractual term in years	0.9	0.9

C. Restricted Stock Units and Performance Stock Units

The Corporation has granted RSUs and PSUs under the 2007 LTIP and 2010 LTIP and in accordance with Rule 5635(c)(4) of the NASDAQ listing standards.

RSUs

The compensation expense for the RSUs is measured based on the market price of the stock on the day prior to the grant date and is recognized on a straight-line basis over the vesting period.

For the three and nine months ended September 30, 2018, the Corporation recognized $318 thousand and $873 thousand, respectively, of expense related to the Corporation's RSUs. As of September 30, 2018, there was $2.3 million of unrecognized compensation cost related to RSUs. This cost will be recognized over a weighted average period of 2.3 years.

The following table details the RSUs for the three and nine months ended September 30, 2018:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Beginning balance	68,595	$ 36.89	75,707	$ 35.80
Granted	23,843	$ 46.29	26,243	$ 46.07
Vested	(16,122)	$ 33.65	(24,469)	$ 32.16
Forfeited	—	$ —	(1,165)	$ 35.36
Ending balance	76,316	$ 40.51	76,316	$ 40.51

PSUs

For the three and nine months ended September 30, 2018, the Corporation recognized $390 thousand and $1.1 million, respectively, of expense related to the PSUs. As of September 30, 2018, there was $3.3 million of unrecognized compensation cost related to PSUs. This cost will be recognized over a weighted average period of 2.2 years.

The following table details the PSUs for the three and nine months ended September 30, 2018:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018

	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Beginning balance	130,260	$ 26.73	168,453	$ 24.76
Granted	40,722	$ 44.56	40,722	$ 44.56
Vested	(48,056)	$ 16.04	(81,840)	$ 16.40
Forfeited	—	$ —	(4,409)	$ 26.57
Ending balance	122,926	$ 36.82	122,926	$ 36.82

Table of Contents

Note 19 - Fair Value Measurement

FASB ASC 820, “Fair Value Measurements and Disclosures,” defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FASB ASC 820 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC Topic 820 are:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active and model derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A. Assets and liabilities measured on a recurring basis

A description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investment Securities

The value of the Corporation’s available for sale investment securities, which include obligations of the U.S. government and its agencies, mortgage-backed securities issued by U.S. government- and U.S. government sponsored agencies, obligations of state and political subdivisions, corporate bonds and other debt securities are determined by the Corporation, taking into account the input of an independent third party valuation service provider. The third party’s evaluations are based on market data, utilizing pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, their pricing models apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (only obtained from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bids, 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. Management reviews, annually, the process utilized by its independent third-party valuation service provider. On a quarterly basis, management tests the validity of the prices provided by the third party by selecting a representative sample of the portfolio and obtaining actual trade results, or if actual trade results are not available, competitive broker pricing. On an annual basis, management evaluates, for appropriateness, the methodology utilized by the independent third-party valuation service provider.

U.S. Government agencies are evaluated and priced using multi-dimensional relational models and option adjusted spreads. State and municipal securities are evaluated on a series of matrices including reported trades and material event notices. Mortgage-backed securities are evaluated using matrix correlation to treasury or floating index benchmarks, prepayment speeds, monthly payment information and other benchmarks. Other available-for-sale investments are evaluated using a broker-quote based application, including quotes from issuers.

Interest Rate Swaps and Risk Participation Agreements

The Corporation's interest rate swaps and RPAs are reported at fair value utilizing Level 2 inputs. Prices of these instruments are obtained through an independent pricing source utilizing pricing information which may include market observed quotations for swaps, LIBOR rates, forward rates and rate volatility. When entering into a derivative contract, the Corporation is exposed to fair value changes due to interest rate movements, and the potential non-performance of our contract counterparty. The Corporation has developed a methodology to value the non-performance risk based on internal credit risk metrics and the unique characteristics of derivative instruments, which include notional exposure rather than principle at risk and interest payment netting. The results of this methodology are used to adjust the base fair value of the instrument for the potential counterparty credit risk.

Table of Contents

The following tables present the Corporation's assets measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017:

As of September 30, 2018

(dollars in thousands)	Total	Level 1	Level 2	Level 3
Investment securities available for sale:				
U.S. Treasury securities	$100	$100	$—	$ —
Obligations of U.S. government & agencies	190,453	—	190,453	—
Obligations of state & political subdivisions	15,799	—	15,799	—
Mortgage-backed securities	284,421	—	284,421	—
Collateralized mortgage obligations	36,193	—	36,193	—
Other investment securities	1,098	—	1,098	—
Total investment securities available for sale	$528,064	$100	$527,964	$ —
Investment securities trading:				
Mutual funds	$8,340	$8,340	$—	$ —
Derivatives:				
Interest rate swaps	$5,886	$—	$5,886	$ —
Total recurring fair value measurements	$542,290	$8,440	$533,850	$ —

As of December 31, 2017

(dollars in thousands)	Total	Level 1	Level 2	Level 3
Investment securities available for sale:				
U.S. Treasury securities	$200,088	$200,088	$—	$ —
Obligations of U.S. government & agencies	151,044	—	151,044	—
Obligations of state & political subdivisions	21,310	—	21,310	—
Mortgage-backed securities	274,990	—	274,990	—
Collateralized mortgage obligations	36,662	—	36,662	—
Mutual funds	3,509	3,509	—	—
Other investment securities	1,599	—	1,599	—
Total investment securities available for sale	$689,202	$203,597	$485,605	$ —
Investment securities trading:				
Mutual funds	$4,610	$4,610	$—	$ —
Derivatives:				
Interest rate swaps	$1,898	$—	$1,898	$ —
Total recurring fair value measurements	$695,710	$208,207	$487,503	$ —

There have been no transfers between levels during the three and nine months ended September 30, 2018.

B. Assets and liabilities measured on a non-recurring basis

Fair value is used on a nonrecurring basis to evaluate certain financial assets and financial liabilities in specific circumstances. Similarly, fair value is used on a nonrecurring basis for nonfinancial assets and nonfinancial liabilities such as foreclosed assets, OREO, intangible assets, nonfinancial assets and liabilities evaluated in a goodwill impairment analysis and other nonfinancial assets measured at fair value for purposes of assessing impairment. A description of the valuation methodologies used for financial and nonfinancial assets and liabilities measured at fair value, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy, is set forth below.

Table of Contents

Impaired Loans

Management evaluates and values impaired loans at the time the loan is identified as impaired, and the fair values of such loans are estimated using Level 3 inputs in the fair value hierarchy. Each loan's collateral has a unique appraisal and management's discount of the value is based on the factors unique to each impaired loan. The significant unobservable input in determining the fair value is management's subjective discount on appraisals of the collateral securing the loan, which range from 10% - 50%. Collateral may consist of real estate and/or business assets including equipment, inventory and/or accounts receivable and the value of these assets is determined based on the appraisals by qualified licensed appraisers hired by the Corporation. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management's expertise and knowledge of the client and the client's business.

The Corporation has an appraisal policy in which an appraisal is obtained for a commercial loan at the point at which the loan either becomes nonperforming or is downgraded to a substandard or worse classification. For consumer loans, management obtains updated appraisals when a loan becomes 90 days past due or when it receives other information that may indicate possible impairment. Based on the appraisals obtained by the Corporation, a partial or full charge-off may be necessary.

Other Real Estate Owned

OREO consists of properties acquired as a result of foreclosures and deeds in-lieu-of foreclosure. Properties classified as OREO are reported at the lower of cost or fair value less cost to sell, and are classified as Level 3 in the fair value hierarchy.

Mortgage Servicing Rights

The model to value MSRs estimates the present value of projected net servicing cash flows of the remaining servicing portfolio based on various assumptions, including changes in anticipated loan prepayment rates, the discount rate, reflective of a market participant's required return on an investment for similar assets, and other market-based economic factors. All of these assumptions are considered to be unobservable inputs. Accordingly, MSRs are classified within Level 3 of the fair value hierarchy.

The following tables present the Corporation's assets measured at fair value on a non-recurring basis as of September 30, 2018 and December 31, 2017:

As of September 30, 2018

(dollars in thousands)	Total	Level 1	Level 2	Level 3
MSRs	$6,586	$ —	$ —	$6,586
Impaired loans and leases	12,593	—	—	12,593
OREO	529	—	—	529
Total non-recurring fair value measurements	$19,708	$ —	$ —	$19,708

As of December 31, 2017

(dollars in thousands)	Total	Level 1	Level 2	Level 3
MSRs	$6,397	$ —	$ —	$6,397
Impaired loans and leases	13,954	—	—	13,954
OREO	304	—	—	304
Total non-recurring fair value measurements	$20,655	$ —	$ —	$20,655

During the three and nine months ended September 30, 2018, a decrease of $148 thousand and an increase of $20 thousand, respectively, were recorded in the Allowance as a result of adjusting the carrying value and estimated fair value of the impaired loans in the above tables.

Table of Contents

Note 20 - Fair Value of Financial Instruments

FASB ASC 825, "Disclosures about Fair Value of Financial Instruments" requires disclosure of the fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate such value. The methodologies for estimating the fair value of financial assets and financial liabilities measured at fair value on a recurring and non-recurring basis are discussed above. The estimated fair value amounts have been determined by management using available market information and appropriate valuation methodologies, are based on the exit price notion set forth by ASU 2016-1 effective January 1, 2018, and are applied to this disclosure on a prospective basis. Estimated fair value of assets and liabilities carried at cost as of December 31, 2017 were based on an entry price notion. In cases where quoted market prices are not available, fair values are based on estimates using present value or other market value techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The aggregate fair value amounts presented below do not represent the underlying value of the Corporation.

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

		As of September 30, 2018		As of December 31, 2017	
(dollars in thousands)	Fair Value Hierarchy Level*	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	$45,354	$45,354	$60,024	$60,024
Investment securities - available for sale	See Note 19	528,064	528,064	689,202	689,202
Investment securities - trading	See Note 19	8,340	8,340	4,610	4,610
Investment securities – held to maturity	Level 2	8,916	8,544	7,932	7,851
Loans held for sale	Level 2	4,111	4,111	3,794	3,794
Net portfolio loans and leases	Level 3	3,362,791	3,362,757	3,268,333	3,293,802
MSRs	Level 3	5,328	6,586	5,861	6,397
Interest rate swaps	Level 2	5,843	5,843	1,895	1,895
RPAs purchased	Level 2	43	43	21	21
Other assets	Level 3	44,439	44,439	46,799	46,799
Total financial assets		$4,013,229	$4,014,081	$4,088,471	$4,114,395
Financial liabilities:					
Deposits	Level 2	$3,357,226	$3,351,183	$3,373,798	$3,368,276
Short-term borrowings	Level 2	226,498	226,498	237,865	237,865
Long-term FHLB advances	Level 2	72,841	71,978	139,140	138,685
Subordinated notes	Level 2	98,482	97,892	98,416	95,044
Junior subordinated debentures	Level 2	21,538	23,564	21,416	19,366
Interest rate swaps	Level 2	5,843	5,843	1,895	1,895
RPAs sold	Level 2	1	1	3	3
Other liabilities	Level 3	60,432	60,432	49,071	49,071
Total financial liabilities		$3,842,861	$3,837,391	$3,921,604	$3,910,205

* See Note 19 in the Notes to Unaudited Consolidated Financial Statements above for a description of hierarchy levels.

Table of Contents

Note 21 - Financial Instruments with Off-Balance Sheet Risk, Contingencies and Concentration of Credit Risk

Off-Balance Sheet Arrangements

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated statements of financial condition. The contractual amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument of commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments.

Commitments to extend credit, which include unused lines of credit and unfunded commitments to originate loans, are agreements to lend to a customer as long as there is no violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Some of the commitments are expected to expire without being drawn upon, and the total commitment amounts do not necessarily represent future cash requirements. Total commitments to extend credit at September 30, 2018 and December 31, 2017 were $764.7 million and $748.3 million, respectively. Management evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on a credit evaluation of the counterparty. Collateral varies but may include accounts receivable, marketable securities, inventory, property, plant and equipment, residential real estate, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to a customer for a third party. Such standby letters of credit are issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is similar to that involved in extending loan facilities to customers. The collateral varies, but may include accounts receivable, marketable securities, inventory, property, plant and equipment, and residential real estate for those commitments for which collateral is deemed necessary. The Corporation's obligations under standby letters of credit as of September 30, 2018 and December 31, 2017 were $21.2 million and $17.7 million, respectively.

Contingencies

Legal Matters

In the ordinary course of its operations, the Corporation and its subsidiaries are parties to various claims, litigation, investigations, and legal and administrative cases and proceedings. Such pending or threatened claims, litigation, investigations, legal and administrative cases and proceedings typically entail matters that are considered ordinary routine litigation incidental to our business. Claims for significant monetary damages may be asserted in many of these types of legal actions. Based on the information currently available, management believes it has meritorious defenses to the claims asserted against it in its currently outstanding legal proceedings and with respect to such legal proceedings, intends to continue to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interests of the Corporation and its shareholders.

On a regular basis, liabilities and contingencies in connection with outstanding legal proceedings are assessed utilizing the latest information available. For those matters where it is probable that the Corporation will incur a loss and the amount of the loss can be reasonably estimated, a liability may be recorded in the Consolidated Financial Statements. These legal reserves may be increased or decreased to reflect any relevant developments on at least a quarterly basis. For other matters, where a loss is not probable or the amount or range of the loss is not estimable, legal reserves are not accrued. While the outcome of legal proceedings is inherently uncertain, based on information currently available, advice of counsel and available insurance coverage, management believes that the established legal reserves are adequate and the liabilities arising from legal proceedings will not have a material adverse effect on the consolidated financial position, consolidated results of operations or consolidated cash flows. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the consolidated financial position, consolidated results of operations or consolidated cash flows of the Corporation.

Table of Contents

Indemnifications

In general, the Corporation does not sell loans with recourse, except to the extent that it arises from standard loan-sale contract provisions. These provisions cover violations of representations and warranties and, under certain circumstances, first payment default by borrowers. These indemnifications may include the repurchase of loans by the Corporation, and are considered customary provisions in the secondary market for conforming mortgage loan sales. Repurchases and losses have been rare and no provision is made for losses at the time of sale. There were no such repurchases for the three or nine months ended September 30, 2018.

Concentrations of Credit Risk

The Corporation has a material portion of its loans in real estate-related loans. A predominant percentage of the Corporation's real estate exposure, both commercial and residential, is in the Corporation's primary trade area which includes portions of Delaware, Chester, Montgomery and Philadelphia counties in Southeastern Pennsylvania. Management is aware of this concentration and attempts to mitigate this risk to the extent possible in many ways, including the underwriting and assessment of borrower's capacity to repay. See Note 5 – "Loans and Leases" for additional information.

Note 22 - Segment Information

FASB Codification 280 – "Segment Reporting" identifies operating segments as components of an enterprise which are evaluated regularly by the Corporation's chief operating decision maker, our Chief Executive Officer, in deciding how to allocate resources and assess performance. The Corporation has applied the aggregation criterion set forth in this codification to the results of its operations.

The Corporation's Banking segment consists of commercial and retail banking. The Banking segment is evaluated as a single strategic unit which generates revenues from a variety of products and services. The Banking segment generates interest income from its lending (including leases) and investing activities and is dependent on the gathering of lower cost deposits from its branch network or borrowed funds from other sources for funding its loans, resulting in the generation of net interest income. The Banking segment also derives revenues from other sources including gains on the sale in available for sale investment securities, gains on the sale of residential mortgage loans, service charges on deposit accounts, cash sweep fees, overdraft fees, BOLI income and revenue associated with its Visa Check Card offering. Also included in the Banking segment are two subsidiaries of the Bank, KCMI Capital, Inc. and Bryn Mawr Equipment Financing, Inc., both of which provide specialized lending solutions to our customers.

The Wealth Management segment has responsibility for a number of activities within the Corporation, including trust administration, other related fiduciary services, custody, investment management and advisory services, employee benefits and IRA administration, estate settlement, tax services and brokerage. Bryn Mawr Trust of Delaware and Lau Associates are included in the Wealth Management segment of the Corporation since they have similar economic characteristics, products and services to those of the Wealth Management Division of the Corporation. BMT Investment Advisers, formed in May 2017, which serves as investment adviser to BMT Investment Funds, a Delaware statutory trust, is also reported under the Wealth Management segment. In addition, the Wealth Management Division oversees all insurance services of the Corporation, which are conducted through the Bank's insurance subsidiary, BMT Insurance Advisors, Inc., and are reported in the Wealth Management segment.

The accounting policies of the Corporation are applied by segment in the following tables. The segments are presented on a pre-tax basis.

The following tables detail the Corporation's segments for the three and nine months ended September 30, 2018 and 2017:

Table of Contents

(dollars in thousands)	Three Months Ended September 30, 2018 Banking	Wealth Management	Consolidated	Three Months Ended September 30, 2017 Banking	Wealth Management	Consolidated
Net interest income	$36,726	$ 3	$ 36,729	$29,437	$ 1	$ 29,438
Provision for loan and lease losses	664	—	664	1,333	—	1,333
Net interest income after loan loss provision	36,062	3	36,065	28,104	1	28,105
Noninterest income:						
Fees for wealth management services	—	10,343	10,343	—	9,651	9,651
Insurance commissions	—	1,754	1,754	—	1,373	1,373
Capital markets revenue	710	—	710	843	—	843
Service charges on deposit accounts	726	—	726	676	—	676
Loan servicing and other fees	559	—	559	548	—	548
Net gain on sale of loans	631	—	631	799	—	799
Net gain on sale of investment securities available for sale	—	—	—	72	—	72
Net gain on sale of OREO	5	—	5	—	—	—
Other operating income	3,498	48	3,546	1,581	41	1,622
Total noninterest income	6,129	12,145	18,274	4,519	11,065	15,584
Noninterest expenses:						
Salaries & wages	11,737	4,791	16,528	9,130	4,472	13,602
Employee benefits	2,394	962	3,356	1,587	973	2,560
Occupancy and bank premises	2,224	493	2,717	2,049	436	2,485
Amortization of intangible assets	386	505	891	197	480	677
Professional fees	889	108	997	681	58	739
Other operating expenses	7,770	1,333	9,103	6,970	1,151	8,121
Total noninterest expenses	25,400	8,192	33,592	20,614	7,570	28,184
Segment profit	16,791	3,956	20,747	12,009	3,496	15,505
Intersegment (revenues) expenses*	(186)	186	—	(112)	112	—
Pre-tax segment profit after eliminations	$16,605	$ 4,142	$ 20,747	$11,897	$ 3,608	$ 15,505
% of segment pre-tax profit after eliminations	80.0 %	20.0 %	100.0 %	76.7 %	23.3 %	100.0 %
Segment assets (dollars in millions)	$4,335.8	$ 52.6	$ 4,388.4	$3,424.8	$ 52.0	$ 3,476.8

Table of Contents

(dollars in thousands)	Nine Months Ended September 30, 2018 Banking	Wealth Management	Consolidated	Nine Months Ended September 30, 2017 Banking	Wealth Management	Consolidated
Net interest income	$111,479	$5	$111,484	$84,804	$2	$84,806
Provision for loan and lease losses	4,831	—	4,831	1,541	—	1,541
Net interest income after loan loss provision	106,648	5	106,653	83,263	2	83,265
Noninterest income:						
Fees for wealth management services	—	31,309	31,309	—	28,761	28,761
Insurance commissions	—	5,349	5,349	—	3,079	3,079
Capital markets revenue	3,481	—	3,481	1,796	—	1,796
Service charges on deposit accounts	2,191	—	2,191	1,953	—	1,953
Loan servicing and other fees	1,720	—	1,720	1,570	—	1,570
Net gain on sale of loans	1,677	—	1,677	1,948	—	1,948
Net gain on sale of investment securities available for sale	7	—	7	73	—	73
Net gain (loss) gain on sale of OREO	292	—	292	(12)	—	(12)
Other operating income	11,709	150	11,859	4,290	138	4,428
Total noninterest income	21,077	36,808	57,885	11,618	31,978	43,596
Noninterest expenses:						
Salaries & wages	34,077	14,673	48,750	27,044	12,588	39,632
Employee benefits	6,992	2,949	9,941	4,565	2,888	7,453
Occupancy and bank premises	7,035	1,429	8,464	6,025	1,233	7,258
Amortization of intangible assets	1,169	1,490	2,659	588	1,469	2,057
Professional fees	2,497	180	2,677	2,318	181	2,499
Other operating expenses	29,076	3,891	32,967	21,200	3,240	24,440
Total noninterest expenses	80,846	24,612	105,458	61,740	21,599	83,339
Segment profit	46,879	12,201	59,080	33,141	10,381	43,522
Intersegment (revenues) expenses*	(485)	485	—	(336)	336	—
Pre-tax segment profit after eliminations	$46,394	$12,686	$59,080	$32,805	$10,717	$43,522
% of segment pre-tax profit after eliminations	78.5%	21.5%	100.0%	75.4%	24.6%	100.0%
Segment assets (dollars in millions)	$4,335.8	$52.6	$4,388.4	$3,424.8	$52.0	$3,476.8

* Inter-segment revenues consist of rental payments, interest on deposits and management fees.

Wealth Management Segment Information

(dollars in millions)	September 30, 2018	December 31, 2017
Assets under management, administration, supervision and brokerage	$ 13,913.3	$ 12,968.7

Table of Contents

ITEM 2. Management’s Discussion and Analysis of Results of Operation and Financial Condition

The following is the Corporation’s discussion and analysis of the significant changes in the financial condition, results of operations, capital resources and liquidity presented in the accompanying Unaudited Consolidated Financial Statements. Current performance does not guarantee, and may not be indicative of, similar performance in the future.

Brief History of the Corporation

The Bryn Mawr Trust Company (the “Bank”) received its Pennsylvania banking charter in 1889 and is a member of the Federal Reserve System. In 1986, Bryn Mawr Bank Corporation (the “Corporation”) was formed and on January 2, 1987, the Bank became a wholly-owned subsidiary of the Corporation. The Bank and Corporation are headquartered in Bryn Mawr, Pennsylvania, a western suburb of Philadelphia. The Corporation and its subsidiaries offer a full range of personal and business banking services, consumer and commercial loans, equipment leasing, mortgages, insurance and wealth management services, including investment management, trust and estate administration, retirement planning, custody services, and tax planning and preparation from 36 branches, eight limited-hour retirement community offices, six wealth management offices and a full-service insurance agency located throughout Montgomery, Delaware, Chester, Philadelphia, Berks, and Dauphin counties in Pennsylvania, Mercer and Camden counties of New Jersey, and New Castle county in Delaware. The common stock of the Corporation trades on the NASDAQ Stock Market (“NASDAQ”) under the symbol BMTC.

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

Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Corporation and its subsidiaries conform with U.S. generally accepted accounting principles (“GAAP”). All inter-company transactions are eliminated in consolidation and certain reclassifications are made when necessary to conform the previous year’s financial statements to the current year’s presentation. In preparing the Consolidated Financial Statements, the Corporation is required to make estimates and assumptions that affect the reported amount of assets and liabilities as of the dates of the balance sheets and revenues and expenditures for the periods presented. However, there are uncertainties inherent in making these estimates and actual results could differ from these estimates. The Corporation has identified certain areas that require estimates and assumptions, which include the Allowance, the valuation of goodwill and intangible assets, the fair value of investment securities, the fair value of derivative financial instruments, and the valuation of mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation. The Corporation’s derivative financial instruments are not exchange-traded and therefore are valued utilizing models that use as their basis readily observable market parameters, specifically the London Interbank Offered Rate (“LIBOR”) swap curve, and are classified within Level 2 of the valuation hierarchy. In addition, certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

These critical accounting policies, along with other significant accounting policies, are presented in Footnote 1 – Summary of Significant Accounting Policies, in the Notes to the audited Consolidated Financial Statements in the Corporation’s Annual Report on Form 10-K for the twelve months ended December 31, 2017 (the "2017 Annual Report").

Recent Acquisitions and Expansions

On May 1, 2018, BMT Insurance Advisors, Inc. acquired Domenick & Associates, a full-service insurance agency established in 1993 and headquartered in the Old City section of Philadelphia. Domenick & Associates has a specialty niche with nonprofit and social service organizations which aligns well with our banking and wealth management solutions in these specialty service areas. This acquisition furthers our objective of pursuing strategic growth opportunities to enhance, broaden, and diversify our revenue streams.

On December 15, 2017 (the "Effective Date"), the merger of Royal Bancshares of Pennsylvania, Inc. (“RBPI”) with and into the Corporation (collectively, the “RBPI Merger”), and the merger of Royal Bank America with and into the Bank, were completed. Consideration totaled $138.7 million, comprised of 3,101,316 shares of the Corporation’s common stock, the assumption of 140,224 warrants to purchase Corporation common stock, valued at $1.9 million, $112 thousand for the cash-out

Table of Contents

of certain options and $7 thousand cash in lieu of fractional shares. Including the effects of any measurement period adjustments in accordance with ASC 805-10, the RBPI Merger initially added $566.2 million of loans, $121.6 million of investments, $593.2 million of deposits, twelve new branches and a loan production office. The acquisition of RBPI expanded the Corporation's footprint within Montgomery, Chester, Berks and Philadelphia Counties in Pennsylvania as well as Camden and Mercer Counties in New Jersey.

In addition to the RBPI Merger, the Bank has continued to execute on its strategies of diversification and acquiring and/or establishing specialty offices in strategically targeted areas where management believes there to be a high demand for the Bank's products and services. On May 24, 2017, the Bank completed its acquisition of Hirshorn Boothby, a full-service insurance agency established in 1931 and headquartered in the Chestnut Hill section of Philadelphia. Hirshorn Boothby was immediately merged into the Bank's existing insurance subsidiary, BMT Insurance Advisors, Inc., formerly known as Powers Craft Parker and Beard, Inc., expanding the footprint of this growing segment.

On May 12, 2017, the Corporation established a wealth management-focused office in Princeton, New Jersey which complements the already-established presence in central New Jersey that was acquired in the RBPI Merger.

Beginning in the second quarter of 2017, the Bank's Capital Markets department commenced operations focusing on providing risk management services to address the needs of its commercial customer base. These capital markets capabilities enable the Bank to offer hedging tools for qualified commercial customers through the use of interest rate swaps and options designed to mitigate the interest rate risk on variable rate loans. This interest rate hedging offering allows the Bank to participate and lead in larger and longer-dated credits without incurring additional interest rate risk. Additional services will focus on assisting qualified customers in hedging their foreign exchange risk and meeting their trade finance needs through enhanced international services capabilities.

Executive Overview

The following items highlight the Corporation's results of operations for the three and nine months ended September 30, 2018, as compared to the same periods in 2017, and the changes in its financial condition as of September 30, 2018 as compared to December 31, 2017. More detailed information related to these highlights can be found in the sections that follow.

Three Month Results of Operations

- Net income attributable to Bryn Mawr Bank Corporation for the three months ended September 30, 2018 was $16.7 million, an increase of $6.0 million as compared to $10.7 million for the same period in 2017. Diluted earnings per share was $0.82 for the three months ended September 30, 2018 as compared to $0.62 for the same period in 2017.

- Return on average equity ("ROE") and return on average assets ("ROA") for the three months ended September 30, 2018 were 12.08% and 1.51%, respectively, as compared to ROE and ROA of 10.72% and 1.24% respectively, for the same period in 2017.

- Tax-equivalent net interest income increased $7.3 million, or 24.3%, to $36.9 million for the three months ended September 30, 2018, as compared to $29.6 million for the same period in 2017.

- Provision for loan and lease losses (the "Provision") of $664 thousand for the three months ended September 30, 2018 was a decrease of $669 thousand from the $1.3 million Provision recorded for the same period in 2017.

-

- Noninterest income of $18.3 million for the three months ended September 30, 2018 increased $2.7 million as compared to $15.6 million for the same period in 2017.

- Fees for wealth management services and insurance commissions of $10.3 million and $1.8 million, respectively, for the three months ended September 30, 2018 increased $692 thousand and $381 thousand, respectively, as compared to the same period in 2017. Capital markets revenue of $710 thousand for the three months ended September 30, 2018 decreased $133 thousand as compared to the same period in 2017.

- Noninterest expense of $33.6 million for the three months ended September 30, 2018 increased $5.4 million, from $28.2 million for the same period in 2017.

Table of Contents

Nine Month Results of Operations

- Net income attributable to Bryn Mawr Bank Corporation for the nine months ended September 30, 2018 was $46.7 million, an increase of $17.5 million as compared to $29.2 million for the same period in 2017. Diluted earnings per share was $2.28 for the nine months ended September 30, 2018 as compared to $1.69 for the same period in 2017.

- Return on average equity and return on average assets for the nine months ended September 30, 2018 were 11.62% and 1.44%, respectively, as compared to ROE and ROA of 10.02% and 1.17% respectively, for the same period in 2017.

- Tax-equivalent net interest income increased $26.4 million, or 30.9%, to $111.8 million for the nine months ended September 30, 2018, as compared to $85.4 million for the same period in 2017.

- The Provision of $4.8 million for the nine months ended September 30, 2018 was an increase of $3.3 million from the $1.5 million Provision recorded for the same period in 2017.

- Noninterest income of $57.9 million for the nine months ended September 30, 2018 increased $14.3 million as compared to $43.6 million for the same period in 2017.

- Fees for wealth management services, insurance commissions, and capital markets revenue of $31.3 million, $5.3 million, and $3.5 million, respectively, for the nine months ended September 30, 2018 increased of $2.5 million, $2.3 million, and $1.7 million, respectively, as compared to the same period in 2017.

- Noninterest expense of $105.5 million for the nine months ended September 30, 2018 increased $22.2 million, from $83.3 million for the same period in 2017.

Changes in Financial Condition

- Total assets of $4.39 billion as of September 30, 2018 decreased $61.3 million from $4.45 billion as of December 31, 2017.

- Total shareholders' equity of $551.4 million as of September 30, 2018 increased $23.3 million from $528.1 million as of December 31, 2017.

- Total portfolio loans and leases as of September 30, 2018 were $3.38 billion, an increase of $95.6 million from $3.29 billion as of December 31, 2017.

- Total non-performing loans and leases of $9.0 million represented 0.27% of portfolio loans and leases as of September 30, 2018 as compared to $8.6 million, or 0.26% of portfolio loans and leases as of December 31, 2017.

- The $18.7 million Allowance, as of September 30, 2018, represented 0.55% of portfolio loans and leases, as compared to $17.5 million or 0.53% of portfolio loans and leases as of December 31, 2017.

- Total deposits of $3.36 billion as of September 30, 2018 decreased $16.6 million from $3.37 billion as of December 31, 2017.

- Wealth assets under management, administration, supervision and brokerage as of September 30, 2018 were $13.91 billion, an increase of $944.5 million from $12.97 billion December 31, 2017.

Table of Contents

Key Performance Ratios

Key financial performance ratios for the three and nine months ended September 30, 2018 and 2017 are shown in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Return on average equity	12.08 %	10.72 %	11.62 %	10.02 %
Return on average assets	1.51 %	1.24 %	1.44 %	1.17 %
Tax-equivalent net interest margin	3.69 %	3.71 %	3.81 %	3.71 %
Basic earnings per share	$0.82	$0.63	$2.31	$1.72
Diluted earnings per share	$0.82	$0.62	$2.28	$1.69
Dividends paid or accrued per share	$0.25	$0.22	$0.69	$0.64
Dividends paid or accrued per share to net income per basic common share	30.5 %	34.9 %	29.9 %	37.2 %

The following table presents certain key period-end balances and ratios as of September 30, 2018 and December 31, 2017:

(dollars in millions, except per share amounts)	September 30, 2018	December 31, 2017
Book value per share	$ 27.18	$ 26.19
Tangible book value per share	$ 16.95	$ 16.02
Allowance as a percentage of portfolio loans and leases	0.55 %	0.53 %
Tier I capital to risk weighted assets	10.90 %	10.42 %
Tangible common equity ratio	8.23 %	7.61 %
Loan to deposit ratio	100.7 %	97.4 %
Wealth assets under management, administration, supervision and brokerage	$ 13,913.3	$ 12,968.7
Portfolio loans and leases	$ 3,381.5	$ 3,285.9
Total assets	$ 4,388.4	$ 4,449.7
Total shareholders' equity	$ 551.4	$ 528.1

The following sections discuss, in greater detail, the Corporation's results of operations for the three and nine months ended September 30, 2018, as compared to the same periods in 2017, and the changes in its financial condition as of September 30, 2018 as compared to December 31, 2017.

Components of Net Income

Net income is comprised of five major elements:

- Net Interest Income, or the difference between the interest income earned on loans, leases and investments and the interest expense paid on deposits and borrowed funds;
- Provision for Loan and Lease Losses, or the amount added to the Allowance to provide for estimated inherent losses on portfolio loans and leases;
- Noninterest Income, which is made up primarily of wealth management revenue, capital markets revenue, gains and losses from the sale of residential mortgage loans, gains and losses from the sale of available for sale investment securities and other fees from loan and deposit services;
- Noninterest Expense, which consists primarily of salaries and employee benefits, occupancy, intangible asset amortization, professional fees, due diligence, merger-related and merger integration expenses, and other operating expenses; and

Income Tax Expense, which include state and federal jurisdictions.

Table of Contents

TAX-EQUIVALENT NET INTEREST INCOME

Net interest income is the primary source of the Corporation's revenue. The below tables present a summary, for the three and nine months ended September 30, 2018 and 2017, of the Corporation's average balances and tax-equivalent yields earned on its interest-earning assets and the rates paid on its interest-bearing liabilities. The tax-equivalent net interest margin is the tax-equivalent net interest income as a percentage of average interest-earning assets. The tax-equivalent net interest spread is the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. The effect of noninterest-bearing liabilities represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders' equity.

Three Months Ended September 30, 2018 Compared to the Same Period in 2017

For the three months ended September 30, 2018, tax-equivalent net interest income increased $7.3 million, or 24.3%, to $36.9 million, as compared to $29.6 million for the same period in 2017. Tax-equivalent interest income and fees on loans and leases increased $11.2 million for the three months ended September 30, 2018 as compared to the same period in 2017. The increase in tax-equivalent interest and fees on loans and leases was primarily related to the $699.4 million increase in average loans to $3.38 billion for the three months ended September 30, 2018 from $2.68 billion for the three months ended September 30, 2017 coupled with a 36 basis point increase on the yield on loans and leases over the same period. The increase in average loans was largely related to the loans and leases acquired in the RBPI Merger which, including the effects of any measurement period adjustments in accordance with ASC 805-10, initially increased loans and leases by $566.2 million, as well as organic loan growth. Tax-equivalent interest income on available for sale investment securities increased by $749 thousand for the three months ended September 30, 2018 as compared to the same period in 2017. Average available for sale investment securities increased by $78.0 million for the third quarter of 2018 as compared to the third quarter of 2017 coupled with a 27 basis point increase in the yield on available for sale investment securities over the same period.

Interest expense on interest-bearing deposits, subordinated notes, short-term borrowings, and junior subordinated debentures increased $3.3 million, $774 thousand, $549 thousand, and $337 thousand, respectively, for the three months ended September 30, 2018 as compared to the same period in 2017. The increase in interest expense on interest-bearing deposits was primarily related to the $621.7 million increase in the average balance coupled with a 41 basis point increase in the yield on interest-bearing deposits over the same period. The increase in average interest-bearing deposits was largely related to the interest-bearing deposits assumed in the RBPI Merger, which initially totaled $494.8 million. The increase in interest expense on subordinated notes was primarily related to the $68.9 million increase in the average balance. The volume increase in subordinated notes was the result of the December 13, 2017 issuance of $70 million ten-year, 4.25% fixed-to-floating subordinated notes. The increase in interest expense on short-term borrowings was primarily attributed to a 90 basis point increase in rate paid for the third quarter of 2018 as compared to the same period in 2017. The increase in interest expense on junior subordinated debentures was related to the $21.5 million of junior subordinated debentures assumed in the RBPI Merger.

Nine Months Ended September 30, 2018 Compared to the Same Period in 2017

For the nine months ended September 30, 2018, tax-equivalent net interest income increased $26.4 million, or 30.9%, to $111.8 million, as compared to $85.4 million for the same period in 2017. Tax-equivalent interest and fees on loans and leases increased $35.8 million for the nine months ended September 30, 2018 as compared to the same period in 2017. The increase in tax-equivalent interest and fees on loans and leases was primarily related to the $724.1 million increase in average loans to $3.34 billion for the nine months ended September 30, 2018 from $2.62 billion as of September 30, 2017 coupled with a 44 basis point increase in the yield on loans and leases over the same period. The increase in average loans was largely related to the loans and leases acquired in the RBPI Merger which, including the effects of any measurement period adjustments in accordance with ASC 805-10, initially increased loans and leases by $566.2 million, as well as organic loan growth. Tax-equivalent interest income on available for sale investment securities increased by $2.6 million for the nine months ended September 30, 2018 as compared to the same period in 2017. Average available for sale investment securities increased by $108.0 million for the nine months ended September 30, 2018 as compared to the same period in 2017 coupled with a 25 basis point increase in the yield on available for sale investment securities over the same period.

Interest expense on interest-bearing deposits, subordinated notes, short-term borrowings, and junior subordinated debentures increased $7.5 million, $2.3 million, $1.9 million, and $946 thousand, respectively, for the nine months ended September 30, 2018 as compared to the same period in 2017. The increase in interest expense on interest-bearing deposits was primarily related to the $615.1 million increase in the average balance coupled with a 30 basis point increase in the yield on interest-bearing deposits over the same period. The increase in average interest-bearing deposits was largely related to the interest-bearing deposits assumed in the RBPI Merger, which initially totaled $494.8 million. The increase in interest expense on subordinated notes was primarily related to the $68.9 million increase in the average balance. The volume increase in

Table of Contents

subordinated notes was the result of the December 13, 2017 issuance of $70 million ten-year, 4.25% fixed-to-floating subordinated notes. The increase in interest expense on short-term borrowings was primarily attributed to the $85.2 million increase in the average balance coupled with a 90 basis point increase in rate paid for the nine months ended September 30, 2018 as compared to the same period in 2017. The increase in interest expense on junior subordinated debentures was related to the $21.5 million of junior subordinated debentures assumed in the RBPI Merger.

Analyses of Interest Rates and Interest Differential

The tables below present the major asset and liability categories on an average daily balance basis for the periods presented, along with interest income, interest expense and key rates and yields.

Table of Contents

(dollars in thousands)	For the Three Months Ended September 30, 2018 Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	2017 Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid
Assets:						
Interest-bearing deposits with banks	$37,467	$64	0.68 %	$26,628	$36	0.54 %
Investment securities - available for sale:						
Taxable	514,360	2,960	2.28 %	427,106	2,160	2.01 %
Tax-exempt(4)	16,056	83	2.05 %	25,268	134	2.10 %
Total investment securities – available for sale	530,416	3,043	2.28 %	452,374	2,294	2.01 %
Investment securities – held to maturity	8,378	5	0.24 %	6,044	11	0.72 %
Investment securities – trading	8,204	30	1.45 %	4,282	8	0.74 %
Loans and leases(1)(2)(3)(4)	3,379,699	42,214	4.96 %	2,680,317	31,058	4.60 %
Total interest-earning assets	3,964,164	45,356	4.54 %	3,169,645	33,407	4.18 %
Cash and due from banks	7,587			15,709		
Allowance for loan and lease losses	(19,467)			(16,564)		
Other assets	423,864			273,116		
Total assets	$4,376,148			$3,441,906		
Liabilities:						
Savings, NOW, and market rate accounts	$1,695,214	$2,425	0.57 %	$1,359,293	$823	0.24 %
Wholesale deposits	256,347	1,329	2.06 %	190,849	548	1.14 %
Retail time deposits	541,652	1,779	1.30 %	321,352	827	1.02 %
Total interest-bearing deposits	2,493,213	5,533	0.88 %	1,871,494	2,198	0.47 %
Short-term borrowings	208,201	1,096	2.09 %	182,845	547	1.19 %
Long-term FHLB advances	81,460	394	1.92 %	155,918	645	1.64 %
Subordinated notes	98,457	1,144	4.61 %	29,564	370	4.97 %
Junior subordinated debt	21,511	337	6.22 %	—	—	—
Total interest-bearing liabilities	2,902,842	8,504	1.16 %	2,239,821	3,760	0.67 %
Noninterest-bearing deposits	866,314			764,562		
Other liabilities	59,085			40,166		
Total noninterest-bearing liabilities	925,399			804,728		
Total liabilities	3,828,241			3,044,549		
Shareholders’ equity	547,907			397,357		
Total liabilities and shareholders’ equity	$4,376,148			$3,441,906		
Net interest spread			3.38 %			3.51 %
Effect of noninterest-bearing sources			0.31 %			0.20 %
Net interest income/margin on earning assets(4)		$36,852	3.69 %		$29,647	3.71 %
Tax-equivalent adjustment(4)		$123	0.01 %		$209	0.03 %

(1) Non-accrual loans have been included in average loan balances, but interest on non-accrual loans has not been included for purposes of determining interest income.
(2) Includes portfolio loans and leases and loans held for sale.
(3) Interest on loans and leases includes deferred fees of $453 thousand and $231 thousand for the three months ended September 30, 2018 and 2017, respectively.
(4) Tax rate used for tax-equivalent calculations is 21% for 2018 and 35% for 2017

Table of Contents

	For the Nine Months Ended September 30,					
	2018			2017		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid
Assets:						
Interest-bearing deposits with banks	$37,573	$181	0.64 %	$30,807	$137	0.59 %
Investment securities - available for sale:						
Taxable	509,405	8,523	2.24 %	391,082	5,753	1.97 %
Tax-exempt[(4)]	18,241	276	2.02 %	28,552	448	2.10 %
Total investment securities – available for sale	527,646	8,799	2.23 %	419,634	6,201	1.98 %
Investment securities – held to maturity	8,054	30	0.50 %	4,984	23	0.62 %
Investment securities – trading	8,248	73	1.18 %	4,105	29	0.94 %
Loans and leases[(1)(2)(3)(4)]	3,341,741	124,750	4.99 %	2,617,658	88,989	4.55 %
Total interest-earning assets	3,923,262	133,833	4.56 %	3,077,188	95,379	4.14 %
Cash and due from banks	8,468			15,462		
Allowance for loan and lease losses	(18,386)			(17,227)		
Other assets	418,261			265,061		
Total assets	$4,331,605			$3,340,484		
Liabilities:						
Savings, NOW, and market rate accounts	$1,719,004	$5,977	0.46 %	$1,374,494	$2,392	0.23 %
Wholesale deposits	221,073	3,035	1.84 %	163,086	1,243	1.02 %
Retail time deposits	534,177	4,492	1.12 %	321,608	2,374	0.99 %
Total interest-bearing deposits	2,474,254	13,504	0.73 %	1,859,188	6,009	0.43 %
Short-term borrowings	195,483	2,711	1.85 %	110,268	811	98.00 %
Long-term FHLB advances	102,312	1,446	1.89 %	169,900	2,025	1.59 %
Subordinated notes	98,450	3,430	4.66 %	29,550	1,110	5.02 %
Junior subordinated debt	21,470	946	5.89 %	—	—	—
Total interest-bearing liabilities	2,891,969	22,037	1.02 %	2,168,906	9,955	0.61 %
Noninterest-bearing deposits	849,247			744,178		
Other liabilities	53,763			37,582		
Total noninterest-bearing liabilities	903,010			781,760		
Total liabilities	3,794,979			2,950,666		
Shareholders' equity	536,626			389,818		
Total liabilities and shareholders' equity	$4,331,605			$3,340,484		
Net interest spread			3.54 %			3.53 %
Effect of noninterest-bearing sources			0.27 %			0.18 %
Net interest income/margin on earning assets[(4)]		$111,796	3.81 %		$85,424	3.71 %
Tax-equivalent adjustment[(4)]		$312	0.01 %		$618	0.03 %

(1) Non-accrual loans have been included in average loan balances, but interest on non-accrual loans has not been included for purposes of determining interest income.
(2) Includes portfolio loans and leases and loans held for sale.
(3) Interest on loans and leases includes deferred fees of $1.2 million and $581 thousand for the nine months ended September 30, 2018 and 2017, respectively.
(4) Tax rate used for tax-equivalent calculations is 21% for 2018 and 35% for 2017

Table of Contents

Rate/Volume Analysis (tax-equivalent basis)*

The rate/volume analysis in the table below analyzes dollar changes in the components of interest income and interest expense as they relate to the change in balances (volume) and the change in interest rates (rate) of tax-equivalent net interest income for the three and nine months ended September 30, 2018 as compared to the same period in 2017, allocated by rate and volume. The change in interest income and/or expense due to both volume and rate has been allocated to changes in volume.

(dollars in thousands)	2018 Compared to 2017 Three Months Ended September 30,			Nine Months Ended September 30,		
increase/(decrease)	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Interest-bearing deposits with banks	$15	$13	$28	$30	$14	$44
Investment securities - taxable	475	341	816	1,788	1,033	2,821
Investment securities -nontaxable	(49)	(2)	(51)	(161)	(11)	(172)
Loans and leases	8,095	3,061	11,156	24,726	11,035	35,761
Total interest income	8,536	3,413	11,949	26,383	12,071	38,454
Interest expense:						
Savings, NOW and market rate accounts	202	1,400	1,602	599	2,986	3,585
Wholesale deposits	188	593	781	441	1,351	1,792
Retail time deposits	568	384	952	1,592	526	2,118
Short-term borrowings	76	473	549	626	1,274	1,900
Long-term FHLB advances	(596)	345	(251)	(928)	349	(579)
Subordinated notes	1,344	(570)	774	2,747	(427)	2,320
Junior subordinated debt	337	—	337	946	—	946
Total interest expense	2,119	2,625	4,744	6,023	6,059	12,082
Interest differential	$6,417	$788	$7,205	$20,360	$6,012	$26,372

* The tax rate used in the calculation of the tax-equivalent income is 21% for 2018 and 35% for 2017

Tax-Equivalent Net Interest Margin

The tax-equivalent net interest margin of 3.69% for the three months ended September 30, 2018 was a two basis point decrease from 3.71% for the same period in 2017. Adjusting for the impact of the accretion of purchase accounting fair value marks, the adjusted tax-equivalent net interest margin decreased ten basis points to 3.52% from 3.62% for the three months ended September 30, 2018 and 2017, respectively. The contribution to the tax-equivalent net interest margin from the accretion of purchase accounting adjustments was 17 basis points for the three months ended September 30, 2018 as compared to nine basis points for the three months ended September 30, 2017.

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

Quarter	Interest-Earning Asset Yield	Interest-Bearing Liability Cost	Net Interest Spread	Effect of Noninterest Bearing Sources	Net Interest Margin
3rd Quarter 2018	4.54%	1.16%	3.38%	0.31%	3.69%
2nd Quarter 2018	4.57%	1.02%	3.55%	0.26%	3.81%
1st Quarter 2018	4.58%	0.87%	3.71%	0.23%	3.94%
4th Quarter 2017	4.15%	0.74%	3.41%	0.21%	3.62%

3rd Quarter 2017	4.18%	0.67%	3.51%	0.20%		3.71%

Table of Contents

Interest Rate Sensitivity

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

Management utilizes several tools to measure the effect of interest rate risk on net interest income. These methods include gap analysis, market value of portfolio equity analysis, and net interest income simulations under various scenarios. The results of these analyses are compared to limits established by the Corporation's ALCO policies and make adjustments as appropriate if the results are outside the established limits.

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

This simulation assumes that there is no growth in interest-earning assets or interest-bearing liabilities over the next twelve months. By definition, the simulation assumes static interest rates and does not incorporate forecasted changes in the yield curve. The changes to net interest income shown below are in compliance with the Corporation's policy guidelines.

Summary of Interest Rate Simulation

	Change in Net Interest Income Over the Twelve Months Beginning After September 30, 2018		Change in Net Interest Income Over the Twelve Months Beginning After December 31, 2017	
	Amount	Percentage	Amount	Percentage
+300 basis points	$4,125	2.82 %	$15,953	10.66 %
+200 basis points	$2,839	1.94 %	$10,644	7.11 %
+100 basis points	$1,478	1.01 %	$5,316	3.55 %
-100 basis points	$(3,503)	(2.39)%	$(6,913)	(4.62)%

The above interest rate simulation suggests that the Corporation's balance sheet is asset sensitive as of September 30, 2018 in the +100 basis point scenario, demonstrating that a 100 basis point increase in interest rates would have a positive impact on net interest income over the next 12 months. The balance sheet is less asset sensitive in a rising-rate environment as of September 30, 2018 than it was as of December 31, 2017. The decrease in sensitivity is related to a decline in noninterest-bearing deposits and an increase in interest-bearing wholesale deposits and borrowings balances at higher rates. The improvement of the change in the 100 basis point decrease in rate is related to the Bank's ability to decrease rates on deposits should rates decline.

The interest rate simulation is an estimate based on assumptions, which are derived from past behavior of customers, along with expectations of future behavior relative to interest rate changes. In today's economic environment and emerging from an extended period of very low interest rates, the reliability of management's assumptions in the interest rate simulation model is more uncertain than in prior years. Actual customer behavior, as it relates to deposit activity, may be significantly different than expected behavior, which could cause an unexpected outcome and may result in lower net interest income than that derived from the analysis referenced above.

Table of Contents

Gap Analysis

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

Non-maturity deposits (demand deposits in particular) are recognized by the Bank's regulatory agencies to have different sensitivities to interest rate environments. Consequently, it is an accepted practice to spread non-maturity deposits over defined time periods to capture that sensitivity. Commercial demand deposits are often in the form of compensating balances, and fluctuate inversely to the level of interest rates; the maturity of these deposits is reported as having a shorter life than typical retail demand deposits. Additionally, the Bank's regulatory agencies have suggested distribution limits for non-maturity deposits. However, management has taken a more conservative approach than these limits would suggest by forecasting these deposit types with a shorter maturity. The following table presents the Corporation's gap analysis as of September 30, 2018:

(dollars in millions)	0 to 90 Days	91 to 365 Days	1 - 5 Years	Over 5 Years	Non-Rate Sensitive	Total
Assets:						
Interest-bearing deposits with banks	$35.2	$—	$—	$—	$ —	$35.2
Investment securities[(1)]	29.1	51.6	337.5	127.1	—	545.3
Loans and leases[(2)]	1,332.9	385.4	1,277.6	389.7	—	3,385.6
Allowance	—	—	—	—	(18.7)	(18.7)
Cash and due from banks	—	—	—	—	10.1	10.1
Other assets	—	—	—	—	430.9	430.9
Total assets	1,397.2	437.0	1,615.1	516.8	422.3	4,388.4
Liabilities and shareholders' equity:						
Demand, noninterest-bearing	63.0	152.5	213.4	405.5	—	834.4
Savings, NOW and market rate	112.0	335.9	796.6	432.0	—	1,676.5
Time deposits	146.3	251.6	162.3	2.4	—	562.6
Wholesale non-maturity deposits	24.1	—	—	—	—	24.1
Wholesale time deposits	81.9	177.7	—	—	—	259.6
Short-term borrowings	226.5	—	—	—	—	226.5
Long-term FHLB advances	17.5	10.7	44.6	—	—	72.8
Subordinated notes	—	—	98.5	—	—	98.5
Junior subordinated debentures	21.5	—	—	—	—	21.5
Other liabilities	—	—	—	—	60.4	60.4
Shareholders' equity	19.7	59.1	315.1	157.6	—	551.5
Total liabilities and shareholders' equity	712.5	987.5	1,630.5	997.5	60.4	4,388.4
Interest-earning assets	1,397.2	437.0	1,615.1	516.8	—	3,966.1
Interest-bearing liabilities	629.8	775.9	1,102.0	434.4	—	2,942.1
Difference between interest-earning assets and interest-bearing liabilities	767.4	(338.9)	513.1	82.4	—	1,024.0
Cumulative difference between interest earning assets and interest-bearing liabilities	$767.4	$428.5	$941.6	$1,024.0	$ —	$1,024.0
Cumulative earning assets as a % of cumulative interest-bearing liabilities	222 %	130 %	138 %	135 %		

(1) Investment securities include available for sale, held to maturity and trading.
(2) Loans include portfolio loans and leases and loans held for sale.

Table of Contents

The table above indicates that the Corporation is asset-sensitive in the immediate 90-day time frame and may experience an increase in net interest income during that time period if rates rise. Conversely, if rates decline, net interest income may decline. It should be noted that the gap analysis is only one tool used to measure interest rate sensitivity and should be used in conjunction with other measures such as the interest rate simulation discussed above. The gap analysis measures the timing of changes in rate, but not the true weighting of any specific component of the Corporation's balance sheet. The asset-sensitive position reflected in this gap analysis is similar to the Corporation's position at December 31, 2017.

PROVISION FOR LOAN AND LEASE LOSSES

For the three months ended September 30, 2018, the Corporation recorded a Provision of $664 thousand which was a $669 thousand decrease as compared to the same period in 2017. The decrease in the Provision was primarily related to improvements in qualitative factors related to the current economic environment. Net charge-offs for the third quarter of 2018 were $1.4 million as compared to $728 thousand for the same period in 2017.

For the nine months ended September 30, 2018, the Corporation recorded a Provision of $4.8 million which was a $3.3 million increase as compared to the same period in 2017. For the nine months ended September 30, 2018, originated loans increased by $264.9 million as compared to a $192.1 million increase for the same period in 2017. In addition, during the second quarter of 2017, an $83 thousand release from Allowance was recorded. The release from Allowance was driven by improvements in the historic charge-off rates during the lookback period used in the calculation of the Allowance requirement during the second quarter of 2017.

Asset Quality and Analysis of Credit Risk

As of September 30, 2018, total nonperforming loans and leases increased by $411 thousand to $9.0 million, representing 0.27% of portfolio loans and leases, as compared to $8.6 million, or 0.26% of portfolio loans and leases as of December 31, 2017. The increase in nonperforming loans and leases was related to the addition of $5.0 million of new nonperforming loans and leases during the nine months ended September 30, 2018, partially offset by pay-offs and pay-downs of $2.7 million, charge-offs of $653 thousand, upgrades to performing status of $1.2 million of loans and leases classified as nonperforming as of December 31, 2017. The Corporation recorded $234 thousand of loans foreclosed and transferred to OREO during the period.

As of September 30, 2018, the Allowance of $18.7 million represented 0.55% of portfolio loans and leases, an increase of 4 basis points from December 31, 2017. The Allowance on originated (non-acquired) portfolio loans, as a percentage of originated (non-acquired) portfolio loans, was 0.68% as of September 30, 2018 as compared to 0.70% as of December 31, 2017. Loans acquired in mergers are recorded at fair value as of the date of acquisition. This fair value estimate takes into account an estimate of the expected lifetime losses of the acquired loans. As such, an acquired loan will not generally become subject to additional Allowance unless it becomes impaired.

As of September 30, 2018, the Corporation had $5.5 million of troubled debt restructurings ("TDRs"), of which $4.3 million were in compliance with the modified terms and excluded from non-performing loans and leases. As of December 31, 2017, the Corporation had $9.1 million of TDRs, of which $5.8 million were in compliance with the modified terms, and were excluded from non-performing loans and leases. The decrease in TDRs during the nine months ended September 30, 2018 was primarily the result of the payoffs of two residential mortgage loans totaling $2.5 million and one $1.3 million commercial mortgage loan, all of which had been previously modified to TDRs.

As of September 30, 2018, the Corporation had a recorded investment of $12.9 million of impaired loans and leases which included $5.5 million of TDRs. Impaired loans and leases are those for which it is probable that the Corporation will not be able to collect all scheduled principal and interest in accordance with the original terms of the loans and leases. Impaired loans and leases as of December 31, 2017 totaled $14.2 million which included $9.1 million of TDRs. Refer to Note 5H in the Notes to Unaudited Consolidated Financial Statements for more information regarding the Corporation’s impaired loans and leases.

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

Table of Contents

Nonperforming Assets and Related Ratios

(dollars in thousands)	September 30, 2018	December 31, 2017
Nonperforming Assets:		
Nonperforming loans and leases	$8,990	$8,579
Other real estate owned	529	304
Total nonperforming assets	$9,519	$8,883
Troubled Debt Restructurings:		
TDRs included in non-performing loans	$1,208	$3,289
TDRs in compliance with modified terms	4,316	5,800
Total TDRs	$5,524	$9,089
Loan and Lease quality indicators:		
Allowance for loan and lease losses to nonperforming loans and leases	207.8 %	204.3 %
Nonperforming loans and leases to total portfolio loans and leases	0.27 %	0.26 %
Allowance for loan and lease losses to total portfolio loans and leases	0.55 %	0.53 %
Nonperforming assets to total loans and leases and OREO	0.28 %	0.27 %
Nonperforming assets to total assets	0.22 %	0.20 %
Total portfolio loans and leases	$3,381,475	$3,285,858
Allowance for loan and lease losses	$18,684	$17,525

NONINTEREST INCOME

Three Months Ended September 30, 2018 Compared to the Same Period in 2017

Noninterest income of $18.3 million for the three months ended September 30, 2018 increased $2.7 million as compared to $15.6 million for the same period in 2017, primarily due to increases in other operating income and fees for wealth management services. Other operating income increased $1.8 million primarily due to a $1.2 million recovery of a purchase accounting fair value mark resulting from the pay off, in full, of a purchased credit impaired loan acquired in the RBPI merger. Fees for wealth management services increased $692 thousand primarily due to the $1.48 billion increase in wealth assets under management, administration, supervision and brokerage between September 30, 2017 and September 30, 2018.

Nine Months Ended September 30, 2018 Compared to the Same Period in 2017

Noninterest income of $57.9 million for the nine months ended September 30, 2018 increased $14.3 million as compared to $43.6 million for the same period in 2017, primarily due to increases in other operating income, fees for wealth management services, insurance commissions, and capital markets revenue. Other operating income increased $6.8 million primarily due to $4.2 million of recoveries of purchase accounting fair value marks resulting from the pay offs, in full, of purchased credit impaired loans acquired in the RBPI merger and $754 thousand of recoveries of loans and leases charged-off by RBPI pre-merger. Fees for wealth management services increased $2.5 million, primarily due to the $1.48 billion increase in wealth assets under management, administration, supervision and brokerage between September 30, 2017 and September 30, 2018. Insurance commissions increased $2.3 million, primarily due to the May 2017 acquisition of Hirshorn Boothby and, to a lesser extent, the May 2018 acquisition of Domenick & Associates. Capital markets revenues increased $1.7 million primarily due to the formation of our Capital Markets group, which began operations in the second quarter of 2017.

Table of Contents

The following table provides supplemental information regarding mortgage loan originations and sales:

(dollars in thousands)	As of and for the Three Months Ended September 30, 2018	2017	As of and for the Nine Months Ended September 30, 2018	2017
Mortgage originations	$47,786	$48,159	$109,604	$143,557
Mortgage loans sold:				
Servicing retained	$—	$28,222	$1,850	$77,686
Servicing released	28,530	8,007	70,378	16,822
Total mortgage loans sold	$28,530	$36,229	$72,228	$94,508
Percentage of originated mortgage loans sold	59.7 %	75.2 %	65.9 %	65.8 %
Servicing retained %	— %	77.9 %	2.6 %	82.2 %
Servicing released %	100.0 %	22.1 %	97.4 %	17.8 %
Residential mortgage loans serviced for others	$596,162	$647,997	$596,162	$647,997
Mortgage servicing rights	$5,328	$5,732	$5,328	$5,732
Gain on sale of mortgage loans	$228	$448	$992	$1,545
Loan servicing and other fees	$559	$548	$1,720	$1,570
Amortization of MSRs	$206	$229	$623	$571
(Recovery) / Impairment of MSRs	$(23)	$3	$(74)	$49

The following table provides details of other operating income for the three and nine months ended September 30, 2018 and 2017:

(dollars in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Visa debit card income	$441	$378	$1,297	$1,079
Bank-owned life insurance (“BOLI”) income	300	201	876	602
Commissions and fees	201	161	926	434
Safe deposit box rentals	113	98	300	282
Other investment income	62	10	209	19
Rental income	41	44	129	139
Gain on trading investments	287	155	706	473
Recovery of purchase accounting fair value loan mark	1,191	153	4,195	171
Miscellaneous other income	559	205	1,929	580
Other operating income	$3,195	$1,405	$10,567	$3,779

Wealth Assets Under Management, Administration, Supervision and Brokerage (“Wealth Assets”)

Wealth Asset accounts are categorized into two groups; the first account group consists predominantly of clients whose fees are determined based on the market value of the assets held in their accounts (“Market Value” fee basis). The second account group consists predominantly of clients whose fees are set at fixed amounts (“Fixed Fee” basis), and, as such, are not affected by market value changes.

Table of Contents

The following tables detail the composition of Wealth Assets as it relates to the calculation of fees for wealth management services:

(dollars in thousands)	Wealth Assets as of:				
Fee Basis	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Market value	$6,032,831	$5,779,774	$5,693,146	$5,884,692	$5,759,375
Fixed fee	7,880,433	7,624,949	7,453,780	7,084,046	6,671,995
Total	$13,913,264	$13,404,723	$13,146,926	$12,968,738	$12,431,370

	Percentage of Wealth Assets as of:				
Fee Basis	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Market value	43.4 %	43.1 %	43.3 %	45.4 %	46.3 %
Fixed fee	56.6 %	56.9 %	56.7 %	54.6 %	53.7 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

The following tables detail the composition of fees for wealth management services for the periods indicated:

(dollars in thousands)	For the Three Months Ended:				
Fee Basis	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Market value	$7,841	$7,620	$7,880	$ 7,618	$ 7,522
Fixed fee	2,501	3,038	2,428	2,356	2,129
Total	$10,342	$10,658	$10,308	$ 9,974	$ 9,651

	Percentage of Fees for Wealth Management for the Three Months Ended:				
Fee Basis	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Market value	75.8 %	71.5 %	76.4 %	76.4 %	77.9 %
Fixed fee	24.2 %	28.5 %	23.6 %	23.6 %	22.1 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Customer Derivatives

To accommodate the risk management needs of qualified commercial customers, the Bank enters into financial derivative transactions consisting of interest rate swaps, options, risk participation agreements and foreign exchange contracts. Derivative financial instruments involve, to varying degrees, interest rate, market and credit risk. Market risk exposure from customer derivative positions is managed by simultaneously entering into matching transactions with institutional dealer counterparties that offset customer contracts in notional amount and term. Derivative contracts create counterparty credit risk with both the Bank’s customers and with institutional dealer counterparties. The Corporation manages customer counterparty credit risk through its credit policy, approval processes, monitoring procedures and by obtaining adequate collateral, when appropriate. The Bank seeks to minimize dealer counterparty credit risk by establishing credit limits and collateral agreements through industry standard agreements published by the International Swaps and Derivatives Association (ISDA) and associated credit support annex (CSA) agreements. None of the Bank’s outstanding derivative contracts associated with the customer derivative program is designated as a hedge and none is entered into for speculative purposes. Derivative instruments are recorded at fair value, with changes in fair values recognized in earnings as components of noninterest income and noninterest expense on the consolidated statements of income.

Table of Contents

NONINTEREST EXPENSE

Three Months Ended September 30, 2018 Compared to the Same Period in 2017

Noninterest expense for the three months ended September 30, 2018 increased $5.4 million, to $33.6 million, as compared to the same period in 2017. Contributing to the increase were increases of $2.9 million, $796 thousand, $623 thousand, $344 thousand, and $232 thousand in salaries and wages, employee benefits, other operating expenses, furniture, fixtures and equipment and occupancy and bank premises expenses, respectively. A majority of these increases were related to the additional expenses associated with the staff and facilities assumed in the RBPI merger. Partially offsetting the increase in noninterest expense was a decrease of $461 thousand of due diligence, merger-related and merger integration expenses for the three months ended September 30, 2018 as compared to the same period in 2017.

Nine Months Ended September 30, 2018 Compared to the Same Period in 2017

Noninterest expense for the nine months ended September 30, 2018 increased $22.1 million, to $105.5 million, as compared to the same period in 2017. Contributing to the increase were increases of $9.1 million, $2.5 million, $1.7 million, and $1.2 million in salaries and wages, employee benefits, other operating expenses, and occupancy and bank premises expenses, respectively. A majority of these increases were related to the additional expenses associated with the staff and facilities assumed in the RBPI merger. In addition, the May 2017 acquisition of Hirshorn Boothby and the formation of our Capital Markets group in the second quarter of 2017 contributed to the increase in noninterest expense. Due diligence, merger-related and merger integration expenses increased $5.2 million for the nine months ended September 30, 2018 as compared to the same period in 2017, primarily related to the RBPI merger.

The following table provides details of other operating expenses for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2018	2017	2018	2017
Contributions	$361	$368	$990	$779
Deferred compensation expense	237	222	489	590
Director fees	169	137	507	473
Dues and subscriptions	274	230	781	647
FDIC insurance	493	433	1,245	1,176
Impairment of OREO and other repossessed assets	6	—	6	200
Insurance	214	211	655	629
Loan processing	969	490	1,838	1,540
Miscellaneous other expenses	407	443	1,962	799
MSR amortization and impairment / (recovery)	184	232	550	620
Other taxes	11	21	48	34
Outsourced services	78	99	211	218
Portfolio maintenance	88	85	324	314
Postage	202	147	557	450
Stationary and supplies	128	149	391	375
Telephone and data lines	500	407	1,436	1,201
Temporary help and recruiting	82	158	239	672
Travel and entertainment	265	239	741	636
Other operating expenses	$4,668	$4,071	$12,970	$11,353

Page 71

Table of Contents

INCOME TAXES

Although income before income taxes increased $5.2 million and $15.6 million for the three and nine months ended September 30, 2018 as compared for the same periods in 2017, income tax expense decreased $700 thousand and $1.9 million for the three and nine months ended September 30, 2018 as compared for the same periods in 2017. The effective tax rates for the three and nine months ended September 30, 2018 decreased to 19.6% and 21.0%, respectively, as compared to 30.7% and 32.9% for the same respective periods in 2017. The decreases in income tax expense and effective tax rate were primarily due to the reduction in the federal corporate income tax rate from 35% to 21% as a result of the Tax Cuts and Jobs Act ("Tax Reform").

Income tax expense for the three and nine months ended September 30, 2018 included net discrete tax benefits of $295 thousand and $177 thousand, respectively, as compared to net discrete tax benefits of $694 thousand and $953 thousand for the same respective periods in 2017. These discrete items were the result of excess tax benefits from stock-based compensation as well as the re-measurement of deferred tax items related to Tax Reform. With the filing of the Corporation's 2017 income tax returns in the fourth quarter, we expect there will be further discrete tax benefits recorded in 2018.

BALANCE SHEET ANALYSIS

Total assets of $4.39 billion as of September 30, 2018 decreased $61.3 million from $4.45 billion as of December 31, 2017. The following sections detail the changes:

Loans and Leases

The table below compares the portfolio loans and leases outstanding at September 30, 2018 to December 31, 2017:

	September 30, 2018		December 31, 2017		Change	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio	Amount	Percent
Commercial mortgage	$1,618,493	47.9 %	$1,523,377	46.4 %	$95,116	6.2 %
Home equity lines & loans	207,806	6.1 %	218,275	6.6 %	(10,469)	(4.8)%
Residential mortgage	467,402	13.8 %	458,886	14.0 %	8,516	1.9 %
Construction	178,493	5.3 %	212,454	6.5 %	(33,961)	(16.0)%
Commercial and industrial	722,999	21.4 %	719,312	21.9 %	3,687	0.5 %
Consumer	47,809	1.4 %	38,153	1.2 %	9,656	25.3 %
Leases	138,473	4.1 %	115,401	3.5 %	23,072	20.0 %
Total portfolio loans and leases	3,381,475	100.0 %	3,285,858	100.0 %	95,617	2.9 %
Loans held for sale	4,111		3,794		317	8.4 %
Total loans and leases	$3,385,586		$3,289,652		$95,934	2.9 %

Investment Securities

Investment securities available for sale as of September 30, 2018 totaled $528.1 million, as compared to $689.2 million as of December 31, 2017. The decrease was primarily related to the maturing, in January 2018, of $200.0 million of short-term U.S. Treasury securities.

Table of Contents

Deposits

Deposits as of September 30, 2018 and December 31, 2017 were as follows:

(dollars in thousands)	September 30, 2018 Balance	Percent of Deposits		December 31, 2017 Balance	Percent of Deposits		Change Amount		Percent	
Interest-bearing demand	$578,243	17.2	%	$481,336	14.3	%	$96,907		20.1	%
Money market	812,027	24.2	%	862,639	25.6	%	(50,612	)	(5.9	)%
Savings	286,266	8.5	%	338,572	10.0	%	(52,306	)	(15.4	)%
Retail time deposits	561,123	16.7	%	532,202	15.8	%	28,921		5.4	%
Wholesale non-maturity deposits	24,040	0.7	%	62,276	1.8	%	(38,236	)	(61.4	)%
Wholesale time deposits	261,164	7.8	%	171,929	5.1	%	89,235		51.9	%
Interest-bearing deposits	2,522,863	75.1	%	2,448,954	72.6	%	73,909		3.0	%
Noninterest-bearing deposits	834,363	24.9	%	924,844	27.4	%	(90,481	)	(9.8	)%
Total deposits	$3,357,226	100.0	%	$3,373,798	100.0	%	$(16,572	)	(0.5	)%

Borrowings

Borrowings as of September 30, 2018 and December 31, 2017 were as follows:

(dollars in thousands)	September 30, 2018 Balance	Percent of Borrowings		December 31, 2017 Balance	Percent of Borrowings		Change Amount		Percent	
Short-term borrowings	$226,498	54.0	%	$237,865	47.9	%	$(11,367	)	(4.8	)%
Long-term FHLB advances	72,841	17.4	%	139,140	28.0	%	(66,299	)	(47.6	)%
Subordinated notes	98,482	23.5	%	98,416	19.8	%	66		0.1	%
Junior subordinated debentures	21,538	5.1	%	21,416	4.3	%	122		0.6	%
Total borrowed funds	$419,359	100.0	%	$496,837	100.0	%	$(77,478	)	(15.6	)%

Table of Contents

Capital

Consolidated shareholders' equity of the Corporation was $551.4 million, or 12.6% of total assets as of September 30, 2018, as compared to $528.1 million, or 11.9% of total assets as of December 31, 2017. The following table presents the Corporation's and Bank's regulatory capital ratios and the minimum capital requirements to be considered "Well Capitalized" by regulators as of September 30, 2018 and December 31, 2017:

	Actual		Minimum to be Well Capitalized	
(dollars in thousands)	Amount	Ratio	Amount	Ratio
September 30, 2018				
Total capital to risk weighted assets:				
Corporation	$491,062	14.33%	$342,754	10.00%
Bank	$414,306	12.10%	$342,460	10.00%
Tier I capital to risk weighted assets:				
Corporation	$373,624	10.90%	$274,203	8.00 %
Bank	$395,350	11.54%	$273,968	8.00 %
Common equity Tier I risk weighted assets:				
Corporation	$352,764	10.29%	$222,790	6.50 %
Bank	$395,350	11.54%	$222,599	6.50 %
Tier I leverage ratio (Tier I capital to total quarterly average assets):				
Corporation	$373,624	8.95 %	$208,814	5.00 %
Bank	$395,350	9.48 %	$208,596	5.00 %
Tangible common equity to tangible assets[1]				
Corporation	$343,939	8.23 %	—	—
Bank	$388,039	9.29 %	—	—
December 31, 2017				
Total capital to risk weighted assets:				
Corporation	$463,637	13.92%	$333,068	10.00%
Bank	$387,067	11.65%	$332,388	10.00%
Tier I capital to risk weighted assets:				
Corporation	$347,187	10.42%	$266,454	8.00 %
Bank	$369,033	11.10%	$265,910	8.00 %
Common equity Tier I risk weighted assets:				
Corporation	$328,676	9.87 %	$216,494	6.50 %
Bank	$369,033	11.10%	$216,052	6.50 %
Tier I leverage ratio (Tier I capital to total quarterly average assets):				
Corporation	$347,187	10.10%	$171,915	5.00 %
Bank	$369,033	10.76%	$171,609	5.00 %
Tangible common equity to tangible assets[1]				
Corporation	$322,964	7.61 %	—	—
Bank	$367,457	8.67 %	—	—

[1] There is no official regulatory guideline for the tangible common equity to tangible asset ratio.

The capital ratios for the Bank and the Corporation, as of September 30, 2018, as shown in the above tables, indicate levels above the regulatory minimum to be considered “well capitalized.” Excluding the Bank’s and Corporation’s Tier I leverage ratio, all regulatory capital ratios increased or are relatively unchanged from their December 31, 2017 levels. The Tier I leverage ratio, which is the ratio of Tier I capital to average quarterly assets, for both the Bank and Corporation decreased from December 31, 2017, as average quarterly assets for the three months ending September 30, 2018 represent a full quarter of the assets acquired in the December 15, 2017 RBPI Merger.

Table of Contents

Liquidity

The Corporation's liquidity position is managed on a daily basis as part of the daily settlement function and continuously as part of the formal asset liability management process. The Bank's liquidity is maintained by managing its core deposits as the primary source, purchasing federal funds, selling loans in the secondary market, borrowing from the FHLB and the Federal Reserve Bank, maintaining a highly liquid investment portfolio, and purchasing and issuing wholesale certificates of deposit as its secondary sources.

Unused availability is detailed on the following table:

(dollars in millions)	Available Funds as of September 30, 2018	Percent of Total Borrowing Capacity		Available Funds as of December 31, 2017	Percent of Total Borrowing Capacity		Dollar Change	Percent Change
Federal Home Loan Bank of Pittsburgh	$ 1,202.6	80.4	%	$ 1,020.0	74.4	%	$ 182.6	17.9 %
Federal Reserve Bank of Philadelphia	139.6	100.0	%	121.3	100.0	%	18.3	15.1 %
Fed Funds Lines (seven banks)	79.0	100.0	%	79.0	100.0	%	—	—
Total	$ 1,421.2	82.9	%	$ 1,220.3	77.6	%	$ 200.9	16.5 %

Quarterly, the ALCO reviews the Corporation's liquidity position and reports its findings to the Corporation's Board of Directors.

The Corporation has an agreement with IND to provide up to $40 million, excluding accrued interest, of money market and NOW funds at an agreed upon interest rate equal to the current Fed Funds rate plus 20 basis points. The Corporation had $24.0 million in balances as of September 30, 2018 under this program.

The Corporation continually evaluates the cost and mix of its retail and wholesale funding sources relative to earning assets and expected future earning-asset growth. The Corporation believes that with its current branch network, along with the available borrowing capacity at FHLB and other sources, it has sufficient capacity available to fund expected earning-asset growth.

Discussion of Segments

The Corporation has two principal segments as defined by FASB ASC 280, "Segment Reporting." The segments are Banking and Wealth Management (see Note 22 in the accompanying Notes to Unaudited Consolidated Financial Statements).

The Wealth Management segment recorded a pre-tax segment profit ("PTSP") of $4.1 million and $12.7 million for the three and nine months ended September 30, 2018, as compared to PTSP of $3.6 million and $10.7 million for the same periods in 2017. The Wealth Management segment provided 20.0% and 21.5% of the Corporation's pre-tax profit for the three and nine months ended September 30, 2018, as compared to 23.3% and 24.6% for the same periods in 2017. For the three and nine month periods ended September 30, 2018, both fees for wealth management services and insurance commissions increased as compared to the same periods in 2017.

The Banking segment recorded a PTSP of $16.6 million and $46.4 million for the three and nine months ended September 30, 2018, as compared to PTSP of $11.9 million and $32.8 million for the same periods in 2017. The Banking segment provided 80.0% and 78.5% of the Corporation's pre-tax profit for the three and nine month periods ended September 30, 2018, as compared to 76.7% and 75.4% for the same periods in 2017.

Off Balance Sheet Arrangements

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. Total commitments to extend credit at September 30, 2018 were $764.7 million, as compared to $748.3 million at December 31, 2017.

Table of Contents

Standby letters of credit are conditional commitments issued by the Bank to a customer for a third party. Such standby letters of credit are issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is similar to that involved in granting loan facilities to customers. The Bank's obligation under standby letters of credit at September 30, 2018 amounted to $21.2 million, as compared to $17.7 million at December 31, 2017.

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

Contractual Cash Obligations of the Corporation as of September 30, 2018:

(dollars in thousands)	Total	Within 1 Year	2 - 3 Years	4 - 5 Years	After 5 Years
Deposits without a stated maturity	$2,534,939	$2,534,939	$—	$—	$—
Wholesale and retail time deposit	822,287	658,169	150,178	13,168	772
Short-term borrowings	226,498	226,498	—	—	—
Long-term FHLB Advances	72,841	28,106	44,735	—	—
Subordinated Notes	100,000	—	—	—	100,000
Junior subordinated debentures	25,800	—	—	—	25,800
Operating leases	31,782	5,360	9,320	6,950	10,152
Purchase obligations	4,958	3,304	1,654	—	—
Total	$3,819,105	$3,456,376	$205,887	$20,118	$136,724

Other Information

Effects of Inflation

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

Effects of Government Monetary Policies

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

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

Special Cautionary Notice Regarding Forward Looking Statements

Certain of the statements contained in this report and the documents incorporated by reference herein may constitute forward-looking statements for the purposes of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended. As such, they are only predictions and may involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Bryn Mawr Bank Corporation (the “Corporation”) to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements include statements with respect to the Corporation’s financial

Table of Contents

goals, business plans, business prospects, credit quality, credit risk, reserve adequacy, liquidity, origination and sale of residential mortgage loans, mortgage servicing rights, the effect of changes in accounting standards, and market and pricing trends loss. The words “may,” “would,” “could,” “will,” “likely,” “expect,” “anticipate,” “intend,” “estimate,” “plan,” “ “project,” “believe,” and similar expressions are intended to identify such forward-looking statements. The Corporation’s actual results may differ materially from the results anticipated by the forward-looking statements due to a variety of factors, including without limitation:

- local, regional, national and international economic conditions, their impact on us and our customers, and our ability to assess those impacts;
- sources of liquidity and financial resources in the amounts, at the times, and on the terms required to support our future business;
- changes in policy, laws or existing statutes, regulatory guidance, legislation or judicial decisions that affect our the financial services industry as a whole, the Corporation, or our subsidiaries individually or collectively;
- results of examinations by the Federal Reserve Board of the Corporation or its subsidiaries, including the possibility that such regulator may, among other things, require us to increase our allowance for loan losses or to write down assets, or restrict our ability to: engage in new products or services; engage in future mergers or acquisitions; open new branches; pay future dividends; or otherwise take action, or refrain from taking action, in order to correct activities or practices that the Federal Reserve believes may violate applicable law or constitute an unsafe or unsound banking practice;
- effectiveness of our capital management strategies and activities;
- changes in accounting requirements or interpretations;
- the accuracy of assumptions underlying the provisions for loan and lease losses and estimates in the value of collateral, and various financial assets and liabilities;
- estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- changes in interest rates, spreads on interest-earning assets and interest-bearing liabilities, and interest rate sensitivity;
- changes in relationships with employees, customers, and/or suppliers;
- our success in continuing to generate new business in our existing markets, as well as identifying and penetrating targeted markets and generating a profit in those markets in a reasonable time;
- changes in consumer and business spending, borrowing and savings habits, and demand for financial services in the relevant market areas;
- rapid technological developments and changes;
- technological systems failures, interruptions and security breaches could negatively impact our operations and reputation;
- competitive pressure and practices of other commercial banks, thrifts, mortgage companies, finance companies, credit unions, securities brokerage firms, insurance companies, money-market and mutual funds and other institutions operating in our market areas and elsewhere, including institutions operating locally, regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the internet;
- risks related to our mergers and acquisitions, including, but not limited to: reputational risks, client and customer retention risks; diversion of management time on integration-related issues; risk that integration may take longer than anticipated or cost more than expected; risk that the anticipated benefits of the merger or acquisition, including any anticipated cost savings or strategic gains, may take longer or be significantly harder to achieve or may fail to be achieved;
- our ability to contain costs and expenses;
- protection and validity of intellectual property rights;
- reliance on large customers;
-

the outcome of pending and future litigation and governmental proceedings;

Table of Contents

- any extraordinary events (such as natural disasters, acts of terrorism, wars or political conflicts);
- ability to retain key employees and members of senior management;
- the ability of key third-party providers to perform their obligations to us and our subsidiaries;
- other material adverse changes in operations or earnings; and
- our success in managing the risks involved in the foregoing.

All written or oral forward-looking statements attributed to the Corporation are expressly qualified in their entirety by the factors, risks, and uncertainties set forth in the foregoing cautionary statements, along with those set forth under the caption titled "Risk Factors" beginning on page 12 of the 2017 Annual Report. All forward-looking statements included in this Report and the documents incorporated by reference herein are based upon the Corporation's beliefs and assumptions as of the date of this Report. The Corporation assumes no obligation to update any forward-looking statement, whether the result of new information, future events, uncertainties or otherwise, as of any future date. In light of these risks, uncertainties and assumptions, you should not put undue reliance on any forward-looking statements discussed in this Report or incorporated documents.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risks

See the discussion of quantitative and qualitative disclosures about market risks in the Corporation's 2017 Annual Report, as updated by the disclosure in "Management's Discussion and Analysis of Results of Operations – Interest Rate Sensitivity," "– Summary of Interest Rate Simulation," "Customer Derivatives" and "– Gap Analysis" in this quarterly report o Form 10-Q.

ITEM 4. Controls and Procedures

As of the end of the period covered by this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer, Francis J. Leto, and Chief Financial Officer, Michael W. Harrington, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective as of September 30, 2018.

There were no changes in the Corporation's internal controls over financial reporting during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II OTHER INFORMATION.

ITEM 1. Legal Proceedings.

The information required by this Item is set forth in the "Legal Matters" discussion in Note 21 "Contingencies" in the Notes to Unaudited Consolidated Financial Statements in Part I Item I of this Form 10-Q, which is incorporated herein by reference in response to this Item.

ITEM 1A. Risk Factors
None.

Table of Contents

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchase

The following table presents the shares repurchased by the Corporation during the third quarter of 2018:

Period	Total Number of Shares Purchased(1)(2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(3)	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs
July 1, 2018 – July 31, 2018	2,787	$ 48.15	2,300	187,000
August 1, 2018 – August 31, 2018	21,877	$ 48.72	7,269	179,731
September 1, 2018 – September 30, 2018	6,141	$ 47.89	4,694	175,037
Total	30,805	$ 48.51	14,263	175,037

(1) On September 30, 2018, 1,004 shares were purchased by the Corporation’s deferred compensation plans through open market transactions.

(2) Includes shares purchased to cover statutory tax withholding requirements on vested stock awards for certain officers of the Corporation or Bank as follows: 487 shares on July 2, 2018; 2,024 shares on August 11, 2018; 1,992 shares on August 12, 2018; 10,592 shares on August 15, 2018; and 443 shares on September 21, 2018.

(3) On August 6, 2015, the Corporation announced a stock repurchase program (the “2015 Program”) under which the Corporation may repurchase up to 1,200,000 shares of the Corporation’s common stock, at an aggregate purchase price not to exceed $40 million. There is no expiration date on the 2015 Program and the Corporation has no plans for an early termination of the 2015 Program. All share repurchases under the 2015 Program were accomplished in open market transactions. As of September 30, 2018, the maximum number of shares remaining authorized for repurchase under the 2015 Program was 175,037.

Table of Contents

ITEM 3. Defaults Upon Senior Securities
None.

ITEM 4. Mine Safety Disclosures.
Not applicable.

ITEM 5. Other Information
None.

Table of Contents

ITEM 6. Exhibits

Exhibit No.	Description and References
3.1	Amended and Restated By-Laws, effective November 20, 2007, incorporated by reference to Exhibit 3.2 of the Corporation's Form 8-K filed with the SEC on November 21, 2007
3.2	Amended and Restated Articles of Incorporation, effective November 21, 2007, incorporated by reference to Exhibit 3.1 of the Corporation's Form 8-K filed with the SEC on November 21, 2007
10.1	Third Amended and Restated Dividend Reinvestment and Stock Purchase Plan, effective May 25, 2018, incorporated by reference to the Corporation's Prospectus (Form 424B2) filed with the SEC on May 25, 2018.
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith
101.INS XBRL	Instance Document, filed herewith
101.SCH XBRL	Taxonomy Extension Schema Document, filed herewith
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document, filed herewith
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document, filed herewith
101.LAB XBRL	Taxonomy Extension Label Linkbase Document, filed herewith
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document, filed herewith

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

BRYN MAWR BANK CORPORATION

Date: November 2, 2018

By: /s/ Francis J. Leto

Francis J. Leto
President & Chief Executive Officer
(Principal Executive Officer)

Date: November 2, 2018

By: /s/ Michael W. Harrington

Michael W. Harrington
Chief Financial Officer
(Principal Financial Officer)