

BRYN MAWR BANK CORP
Form 10-K
March 01, 2019

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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

for the transition period from _____ to _____

Commission file number 001-35746.

BRYN MAWR BANK CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania

23-2434506

(State of other jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification Number)

801 Lancaster Avenue, Bryn Mawr, Pennsylvania

19010

(Address of principal executive offices)

(Zip Code)

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

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

Title of each class Name of each exchange on which registered

Common Stock (\$1 par value) The Nasdaq Stock Market LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically 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 such files).

Yes No

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 by Rule 12b-2 of the Act):

Yes No

The aggregate market value of shares of common stock held by non-affiliates of the registrant (including fiduciary accounts administered by affiliates) was \$924,061,719 on June 30, 2018 and was based upon the last sales price at which our common stock was quoted on the NASDAQ Stock Market on June 30, 2018.*

As of February 19, 2019, there were 20,163,136 shares of common stock outstanding.

Documents Incorporated by Reference: Portions of the Definitive Proxy Statement of registrant to be filed with the Commission pursuant to Regulation 14A with respect to the registrant’s Annual Meeting of Shareholders to be held on April 18, 2019 (“2019 Proxy Statement”), as indicated in Parts II and III, are incorporated into this Form 10-K by reference.

* The registrant does not admit by virtue of the foregoing that its officers and directors are “affiliates” as defined in Rule 405.

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Bryn Mawr Bank Corporation

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SPECIAL CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements contained in this report and the documents incorporated by reference herein may constitute forward-looking statements for the purposes of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). 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 goals, business plans, business prospects, credit quality, credit risk, reserve adequacy, liquidity, origination and sale of residential mortgage loans, mortgage servicing rights, the effect of changes in accounting standards, and market and pricing trends loss. The words "may," "would," "could," "will," "likely," "expect," "anticipate," "intend," "estimate," "plan," "forecast," "project," similar expressions are intended to identify statements that constitute 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;
- our need for capital;
- reduced demand for our products and services, and lower revenues and earnings due to an economic recession;
- lower earnings due to other-than-temporary impairment charges related to our investment securities portfolios or other assets;
- changes in monetary or fiscal policy, or existing statutes, regulatory guidance, legislation or judicial decisions, including those concerning banking, securities, insurance or taxes, that adversely affect our business, the financial services industry as a whole, the Corporation, or our subsidiaries individually or collectively;
- changes in the level of non-performing assets and charge-offs;
- effectiveness of capital management strategies and activities;
- changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- other changes in accounting requirements or interpretations;
- the accuracy of assumptions underlying the establishment of provisions for loan and lease losses, estimates in the value of collateral, and various financial assets and liabilities;
- inflation, securities market and monetary fluctuations, including changes in the market values of financial assets and the stability of particular securities markets;
- changes in interest rates, spreads on interest-earning assets and interest-bearing liabilities, and interest rate sensitivity;
- prepayment speeds, loan originations and credit losses;
- changes in the value of our mortgage servicing rights;
- sources of liquidity and financial resources in the amounts, at the times, and on the terms required to support our future business;
- 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;
- variances in common stock outstanding and/or volatility in common stock price;
- fair value of and number of stock-based compensation awards to be issued in future periods;
-

risks related to our mergers and acquisitions, including, but not limited to: reputational risks; client and customer retention risks; diversion of management's time for integration-related issues; integration may take longer than

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anticipated or cost more than expected; 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 not be realized;

deposit attrition, operating costs, customer loss and business disruption following a merger or acquisition, including, without limitation, difficulties in maintaining relationships with employees, customers, and/or suppliers may be greater than expected;

the credit risks of lending activities and overall quality of the composition of acquired loan, lease and securities portfolio;

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;

our ability to continue to generate investment results for customers or introduce competitive new products and services on a timely, cost-effective basis, including investment and banking products that meet customers' needs;

changes in consumer and business spending, borrowing and savings habits and demand for financial services in the relevant market areas;

extent to which products or services previously offered (including but not limited to mortgages and asset back securities) require us to incur liabilities or absorb losses not contemplated at their initiation or origination;

rapid technological developments and changes;

technological systems failures, interruptions and security breaches, internally or through a third-party provider, could negatively impact our operations, customers and/or 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;

protection and validity of intellectual property rights;

reliance on large customers;

technological, implementation and cost/financial risks in contracts;

- the outcome of pending and future litigation and governmental proceedings;
- any extraordinary events (such as natural disasters, acts of terrorism, wars or political conflicts);

ability to retain key employees and members of senior management;

changes in relationships with employees, customers, and/or suppliers;

the ability of key third-party providers to perform their obligations to us and our subsidiaries;

our need for capital, or our ability to control operating costs and expenses or manage loan and lease delinquency rates;

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 this 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.

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PART I

ITEM 1. BUSINESS

GENERAL

The Bryn Mawr Trust Company (the “Bank”) received its Pennsylvania banking charter in 1889 and is a member of the Federal Reserve System. In 1986, Bryn Mawr Bank Corporation (the “Corporation”) was formed and on January 2, 1987, the Bank became a wholly-owned subsidiary of the Corporation. The Bank and Corporation are headquartered in Bryn Mawr, Pennsylvania, a western suburb of Philadelphia. The Corporation and its subsidiaries offer a full range of personal and business banking services, consumer and commercial loans, equipment leasing, mortgages, insurance and wealth management services, including investment management, trust and estate administration, retirement planning, custody services, and tax planning and preparation from 43 banking locations, six wealth management offices and two insurance and risk management locations in the following counties: Montgomery, Chester, Delaware, Philadelphia, and Dauphin Counties in Pennsylvania; New Castle County in Delaware; and Mercer and Camden Counties in New Jersey. The Corporation’s common stock trades on the NASDAQ Stock Market (“NASDAQ”) under the symbol BMTC.

The goal of the Corporation is to become the premier community bank and wealth management organization in the greater Philadelphia area. The Corporation’s strategy to achieve this goal includes investing in people and technology to support its growth, leveraging the strength of its brand, targeting high-potential markets for expansion, basing its sales strategy on relationships and concentrating on core product solutions. The Corporation strives to strategically broaden the scope of its product offerings, engaging in inorganic growth by selectively acquiring small to mid-sized banks, insurance brokerages, wealth management companies, and advisory and planning services firms, and hiring high-performing teams where strategically advantageous.

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”), the Federal Deposit Insurance Corporation (“FDIC”), the Federal Reserve and the Pennsylvania and Delaware Departments of Banking.

WEBSITE DISCLOSURES

The Corporation files with the SEC and makes available, free of charge, through its website, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A, and all amendments to those reports as soon as reasonably practicable after the reports are electronically filed with the SEC. These reports can be obtained on the Corporation’s website at www.bmt.com by following the link, “About BMT,” followed by “Investor Relations.” The information contained on or connected to our website is not incorporated by reference into this Annual Report on Form 10-K.

OPERATIONS

•Bryn Mawr Bank Corporation

The Corporation has no active staff as of December 31, 2018. The Corporation is the sole shareholder of the stock of the Bank. Additionally, the Corporation performs several functions including shareholder communications, shareholder recordkeeping, the distribution of dividends and the periodic filing of reports and payment of fees to

NASDAQ, the SEC and other regulatory agencies.

As of December 31, 2018, the Corporation and its subsidiaries collectively had 631 full-time and 65 part-time employees, totaling 668 full time equivalent staff.

ACTIVE SUBSIDIARIES OF THE CORPORATION

The Corporation has four active subsidiaries which provide various services as described below. Additionally, the Corporation and the Bank acquired certain subsidiaries in the merger of Royal Bancshares of Pennsylvania, Inc. ("RBPI") with and into the Corporation on December 15, 2017 (the "Effective Date"), and the merger of Royal Bank America with and into the Bank (collectively, the "RBPI Merger"), pursuant to the Agreement and Plan of Merger, by and between RBPI and the Corporation, dated as of January 30, 2017 (the "Agreement") that are not included in the below descriptions as they are not

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integral or significant to our business. Further, in connection with the RBPI Merger, the Corporation acquired two Delaware trusts, Royal Bancshares Capital Trust I and Royal Bancshares Capital Trust II, which are discussed in more detail in Note 1, “Summary of Significant Accounting Policies,” in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

•The Bryn Mawr Trust Company

The Bank is engaged in commercial and retail banking business, providing basic banking services, including the acceptance of demand, time and savings deposits and the origination of commercial, real estate and consumer loans and other extensions of credit including leases. The Bank also provides a full range of wealth management services including trust administration and other related fiduciary services, custody services, investment management and advisory services, employee benefit account and IRA administration, estate settlement, tax services, financial planning and brokerage services. The Bank’s employees are included in the Corporation’s employment numbers above.

The Bank presently operates 43 banking locations (which include eight retirement home community locations), six wealth management offices, and two insurance and risk management locations in the following counties: Montgomery, Chester, Delaware, Philadelphia, and Dauphin Counties in Pennsylvania; New Castle County in Delaware; and Mercer and Camden Counties in New Jersey. See the section titled “COMPETITION” later in this item for additional information.

•Lau Associates LLC

Lau Associates LLC, a SEC registered investment advisor, is an independent, family wealth office serving high net worth individuals and families, with special expertise in planning intergenerational inherited wealth. Lau Associates LLC is headquartered in Greenville, Delaware, and is a wholly-owned subsidiary of the Corporation.

•The Bryn Mawr Trust Company of Delaware

The Bryn Mawr Trust Company of Delaware (“BMTC-DE”) is a limited-purpose trust company located in Greenville, DE and has the ability to be named and serve as a corporate fiduciary under Delaware law. Being able to serve as a corporate fiduciary under Delaware law is advantageous as Delaware statutes are widely recognized as being favorable with respect to the creation of tax-advantaged trust structures, LLCs and related wealth transfer vehicles for families and individuals throughout the United States. BMTC-DE is a wholly-owned subsidiary of the Corporation.

•BMT Investment Advisers

BMT Investment Advisers (“BMTIA”), a Delaware statutory trust and wholly-owned subsidiary of the Corporation, was established in May 2017. BMTIA is an SEC-registered investment adviser which serves as investment adviser to BMT Investment Funds, a Delaware statutory trust. There is an Investment Advisory Agreement between BMT Investment Advisers and BMT Investment Funds, on behalf of the BMT Multi-Cap Fund. The BMT Multi-Cap Fund is a broadly diversified mutual fund focused on equity investments.

ACTIVE SUBSIDIARIES OF THE BANK

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

•KCM Capital, Inc.

KCMI Capital, Inc. (“KCMI”) is a wholly-owned subsidiary of the Bank, located in Media, Pennsylvania, which was established on October 1, 2015. KCMI specializes in providing non-traditional commercial mortgage loans to small businesses throughout the United States.

•BMT Insurance Advisors, Inc. f/k/a Powers Craft Parker and Beard, Inc.

BMT Insurance Advisors, Inc. (“BMT Insurance Advisors”), formerly known as Powers Craft Parker and Beard, Inc. (“PCPB”) is a wholly-owned subsidiary of the Bank, headquartered in Berwyn, Pennsylvania. BMT Insurance Advisors is a full-service insurance agency, through which the Bank offers insurance and related products and services to its customer base. This includes casualty, property and allied insurance lines, as well as life insurance, annuities, medical insurance and accident and health insurance for groups and individuals.

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•Bryn Mawr Equipment Finance, Inc.

Bryn Mawr Equipment Finance, Inc. (“BMEF”), a wholly-owned subsidiary of the Bank, is a Delaware corporation registered to do business in Pennsylvania. BMEF is a small-ticket equipment financing company servicing customers nationwide from its Montgomery County, Pennsylvania location.

BUSINESS COMBINATIONS

The Corporation and its subsidiaries engaged in the following business combinations since January 1, 2014:

•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.

•Royal Bancshares of Pennsylvania, Inc.

On December 15, 2017, the RBPI Merger 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. 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.

•Harry R. Hirshorn & Company, Inc.

On May 24, 2017, the Bank acquired Harry R. Hirshorn & Company, Inc. (“Hirshorn”), an insurance agency headquartered in the Chestnut Hill section of Philadelphia. Consideration totaled \$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 in 2019 and 2020, subject to certain conditions. The acquisition of Hirshorn expanded the Bank’s footprint into this desirable northwest corner of Philadelphia. Immediately after acquisition, Hirshorn was merged into PCPB (now BMT Insurance Advisors).

•Robert J. McAllister Agency, Inc.

On April 1, 2015, the acquisition of Robert J. McAllister, Inc. (“RJM”), an insurance brokerage headquartered in Rosemont, Pennsylvania, was completed. Consideration totaled \$1.0 million, of which \$500 thousand was paid at closing, two contingent payments of \$85 thousand (out of a maximum of \$100 thousand) were paid during the second quarters of 2018 and 2016, one contingent payment of \$100 thousand was paid during the second quarter of 2017, and two remaining contingent cash payments, not to exceed \$100 thousand each, will be payable in 2019 and 2020, subject to certain conditions. Shortly after acquisition, RJM was merged into PCPB (now BMT Insurance Advisors).

•Continental Bank Holdings, Inc.

On January 1, 2015, the merger of Continental Bank Holdings, Inc. (“CBH”) with and into the Corporation (the “CBH Merger”), and the merger of Continental Bank with and into the Bank, were completed. Consideration totaled \$125.1 million, comprised of 3,878,304 shares of the Corporation’s common stock, the assumption of options to purchase Corporation common stock valued at \$2.3 million, \$1.3 million for the cash-out of certain warrants, and \$2 thousand cash in lieu of fractional shares. The CBH Merger initially added \$424.7 million of loans, \$181.8 million of investments, \$481.7 million of deposits and ten new branches. The acquisition of CBH enabled the Corporation to expand its footprint within Montgomery County, Pennsylvania.

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•BMT Insurance Advisors, Inc. f/k/a Powers Craft Parker and Beard, Inc.

On October 1, 2014, the acquisition of PCPB, an insurance brokerage previously headquartered in Rosemont, Pennsylvania, was completed. The consideration paid by the Corporation was \$7.0 million, of which \$5.4 million was paid at closing and three contingent payments, of \$542 thousand each, which were paid during the fourth quarters of 2015, 2016 and 2017. The addition enabled the Corporation to offer a full range of insurance products to both individual and business clients. As described above, the subsequent acquisitions of RJM and Hirshorn were merged into PCPB, which was renamed BMT Insurance Advisors. The resulting combined entity, operating from two locations, under the name BMT Insurance Advisors, has enhanced the Bank's ability to offer comprehensive insurance solutions to both individual and business clients.

SOURCES OF THE CORPORATION'S REVENUE

Continuing Operations

See Note 30, "Segment Information," in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K for additional information. The Corporation had no discontinued operations in 2016, 2017 or 2018.

DESCRIPTION OF BUSINESS AND COMPETITION

The Corporation and its subsidiaries, including the Bank, compete for deposits, loans, wealth management and insurance services in Montgomery, Chester, Delaware, Philadelphia, and Dauphin Counties in Pennsylvania, New Castle County in Delaware, and Mercer and Camden Counties in New Jersey. The Corporation has 43 banking locations, six wealth management offices and two insurance and risk management locations.

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

The Corporation is able to compete with the other firms because of its consistent level of customer service, excellent reputation, professional expertise, comprehensive product line, and its competitive rates and fees. However, there are several negative factors which can hinder the Corporation's ability to compete with larger institutions such as its limited number of locations, smaller advertising and technology budgets, and a general inability to scale its operating platform, due to its size.

Mergers, acquisitions and organic growth through subsidiaries have contributed significantly to the growth and expansion of the Corporation. The acquisition of Lau Associates LLC in July 2008 and the formation of BMT-DE allowed the Corporation to establish a presence in the State of Delaware, where it competes for wealth management business. The November 2012 acquisition of certain loan and deposit accounts and a branch location from First Bank of Delaware enabled the Corporation to further expand its banking segment in the greater Wilmington, Delaware area.

The Corporation's first significant bank acquisition, the July 2010 merger with First Keystone Financial, Inc. expanded the Corporation's footprint significantly into Delaware County, Pennsylvania. This was followed by the January 2015 merger with CBH and the December 2017 merger with RBPI. These bank mergers further expanded the Corporation's

reach well into the surrounding counties in Pennsylvania, including five branches within the City of Philadelphia, and also expanded the Bank's footprint into southern and central New Jersey.

The acquisition of the Private Wealth Management Group of the Hershey Trust Company ("PWMG") in May 2011 enabled the Bank's Wealth Management Division to extend into central Pennsylvania by continuing to operate the former PWMG offices located in Hershey, Pennsylvania. The May 2012 acquisition of the Davidson Trust Company allowed the Corporation to further expand its range of services and bring deeper market penetration in our core market area.

The October 2014 acquisition of PCPB, April 2015 acquisition of RJM, the May 2017 acquisition of Hirshorn, and the May 2018 acquisition of Domenick enabled the Bank to expand its range of insurance solutions to both individuals as well as business clients. The Hirshorn transaction, in particular, established a key location in the desirable northwest corner of Philadelphia, affording the Bank greater opportunity to provide insurance and other financial solutions to both existing and potential clients.

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In October 2015, KCMI was established which enabled the Corporation to compete, on a national level, for a specialized lending market that focuses on non-traditional small business borrowers with well-established businesses. In addition to KCMI, BMEF, which specializes in equipment leases for small- and mid-sized businesses, also competes on a national scale.

In May 2017, BMTIA was established. BMTIA is an SEC-registered investment adviser which serves as investment adviser to BMT Investment Funds, a Delaware statutory trust. There is an Investment Advisory Agreement between BMT Investment Advisers and BMT Investment Funds, on behalf of the BMT Multi-Cap Fund. The BMT Multi-Cap Fund is a broadly diversified mutual fund focused on equity investments which the Corporation's wealth management division is able to offer as an investment choice to its client base.

SUPERVISION AND REGULATION

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

•Bank Holding Company Regulation

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

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

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

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

it provides to the Corporation or any of its non-bank subsidiaries, investments in the stock or securities thereof, and on the taking of such stock or securities as collateral for loans to any borrower.

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

Under the Federal Deposit Insurance Act, as amended by the Dodd-Frank Act, a bank holding company is required to serve as a source of financial strength to each of its subsidiary banks and to commit resources, including capital funds during periods of financial stress, to support each such bank. Consistent with this “source of strength” requirement for subsidiary banks, the Federal Reserve Board has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fund fully the

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dividends, and the prospective rate of earnings retention appears to be consistent with the company's capital needs, asset quality and overall financial condition.

Federal law also grants to federal banking agencies the power to issue cease and desist orders when a depository institution or a bank holding company or an officer or director thereof is engaged in or is about to engage in unsafe and unsound practices. The Federal Reserve Board may require a bank holding company, such as the Corporation, to discontinue certain of its activities or activities of its other subsidiaries, other than the Bank, or divest itself of such subsidiaries if such activities cause serious risk to the Bank and are inconsistent with the Act or other applicable federal banking laws.

•Federal Reserve Board and Pennsylvania Department of Banking and Securities Regulation

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

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

The regulations of the Department of Banking restrict the amount of dividends that can be paid to the Corporation by the Bank. Payment of dividends is restricted to the amount of the Bank's net income during the current calendar year and the retained net income of the prior two calendar years, unless the dividend has been approved by the Board of Governors of the Federal Reserve System. Accordingly, the dividend payable by the Bank to the Corporation beginning on January 1, 2019 is limited to net income not yet earned in 2019 plus the Bank's total retained net income for the combined two years ended December 31, 2017 and 2018 of \$55.1 million. The amount of dividends paid by the Bank may not exceed a level that reduces capital levels to below levels that would cause the Bank to be considered less than adequately capitalized. The payment of dividends by the Bank to the Corporation is the source on which the Corporation currently depends to pay dividends to its shareholders.

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

On October 24, 2012, Pennsylvania enacted three new laws known as the "Banking Law Modernization Package," all of which became effective on December 24, 2012. The intended goal of the new law, which applies to the Bank, is to

modernize Pennsylvania's banking laws and to reduce regulatory burden at the state level where possible, given the increased regulatory demands at the federal level as described below.

The law also permits banks as well as the Department of Banking to disclose formal enforcement actions initiated by the Department of Banking, clarifies that the Department of Banking has examination and enforcement authority over subsidiaries as well as affiliates of regulated banks and bolsters the Department of Banking's enforcement authority over its regulated institutions by clarifying its ability to remove directors, officers and employees from institutions for violations of laws or orders or for any unsafe or unsound practice or breach of fiduciary duty. Changes to existing law also allow the Department of Banking to assess civil money penalties of up to \$25,000 per violation.

The new law also sets a new standard of care for bank officers and directors, applying the same standard that exists for non-banking corporations in Pennsylvania. The standard is one of performing duties in good faith, in a manner reasonably believed to be in the best interests of the institutions and with such care, including reasonable inquiry, skill and diligence, as a

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person of ordinary prudence would use under similar circumstances. Directors may rely in good faith on information, opinions and reports provided by officers, employees, attorneys, accountants, or committees of the board, and an officer may not be held liable simply because he or she served as an officer of the institution.

•Deposit Insurance Assessments

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

In addition to deposit insurance assessments, banks are subject to assessments to pay the interest on Financing Corporation bonds. The Financing Corporation was created by Congress to issue bonds to finance the resolution of failed thrift institutions. The FDIC sets the Financing Corporation assessment rate every quarter. The Financing Corporation assessment for the fourth quarter of 2018 was an annualized rate of 0.14 basis points. Payments of the Financing Corporation assessment during the year ended December 31, 2018 totaled \$119 thousand.

• Government Monetary Policies

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

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

•Safety and Soundness

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

•Capital Adequacy

Federal and state banking laws impose on banks certain minimum requirements for capital adequacy. Federal banking agencies have issued certain “risk-based capital” guidelines, and certain “leverage” requirements on member banks such as the Bank. By policy statement, the Department of Banking also imposes those requirements on the Bank. Banking regulators have authority to require higher minimum capital ratios for an individual bank or bank holding company in view of its circumstances.

Minimum Capital Ratios: The risk-based guidelines require all banks to maintain three “risk-weighted assets” ratios. The first is a minimum ratio of total capital (“Tier I” and “Tier II” capital) to risk-weighted assets equal to 8.00%; the second is a minimum ratio of “Tier I” capital to risk-weighted assets equal to 6.00%; and the third is a minimum ratio of “Common Equity Tier I” capital to risk-weighted assets equal to 4.5%. Assets are assigned to five risk categories, with higher levels of capital being required for the categories perceived as representing greater risk. In making the calculation, certain intangible assets must be deducted from the capital base. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets.

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

The "leverage" ratio rules require banks which are rated the highest in the composite areas of capital, asset quality, management, earnings, liquidity and sensitivity to market risk to maintain a ratio of "Tier I" capital to "adjusted total assets" (equal to the bank's average total assets as stated in its most recent quarterly Call Report filed with its primary federal banking regulator, minus end-of-quarter intangible assets that are deducted from Tier I capital) of not less than 4.00%.

For purposes of the capital requirements, "Tier I" or "core" capital is defined to include common stockholders' equity and certain noncumulative perpetual preferred stock and related surplus. "Tier II" or "qualifying supplementary" capital is defined to include a bank's allowance for loan and lease losses up to 1.25% of risk-weighted assets, plus certain types of preferred stock and related surplus, certain "hybrid capital instruments" and certain term subordinated debt instruments. "Common Equity Tier I" capital is defined as the sum of common stock instruments and related surplus net of treasury stock, retained earnings, accumulated other comprehensive income, and qualifying minority interests.

In addition to the capital requirements discussed above, banks are required to maintain a "capital conservation buffer" above the regulatory minimum capital requirements, which must consist entirely of common equity Tier I capital.

The capital conservation buffer has been phased-in over a four-year period, which began on January 1, 2016, as follows: the maximum buffer was 0.625% of risk-weighted assets for 2016, 1.25% for 2017 and 1.875% for 2018, and effective as of January 1, 2019, the capital conservation buffer is fully phased in at 2.5%.

Institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if their capital levels fall below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

The capital requirement rules, which were finalized in July 2013, implement revisions and clarifications consistent with Basel III regarding the various components of Tier I capital, including common equity, unrealized gains and losses, as well as certain instruments that no longer qualify as Tier I capital, some of which are being phased out over time. However, small depository institution holding companies with less than \$15 billion in total assets as of December 31, 2009 (which includes the Corporation) will be able to permanently include non-qualifying instruments that were issued and included in Tier I or Tier II capital prior to May 19, 2010 in additional Tier I or Tier II capital until they redeem such instruments or until the instruments mature.

The Basel III final framework provides for a number of deductions from and adjustments to Common Equity Tier 1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from Common Equity Tier 1 to the extent that any one such category exceeds 10% of Common Equity Tier 1 or all such categories in the aggregate exceed 15% of Common Equity Tier 1.

In addition, smaller banking institutions (less than \$250 billion in consolidated assets) were granted an opportunity to make a one-time election to opt out of including most elements of accumulated other comprehensive income in

regulatory capital. Importantly, the opt-out excludes from regulatory capital not only unrealized gains and losses on available-for-sale debt securities, but also accumulated net gains and losses on cash-flow hedges and amounts attributable to defined benefit postretirement plans. The Corporation elected to opt-out, and indicated its election on the Call Report filed after January 1, 2015.

In 2018, the federal bank regulatory agencies issued a variety of proposals and made statements concerning regulatory capital standards. These proposals touched on a such areas as commercial real estate exposure, credit loss allowances under generally accepted accounting principles, capital requirements for covered swap entities, among others. Public statements by key agency officials have also suggested a revisiting of capital policy and supervisory approaches on a going-forward basis. We will be assessing the impact on us of these new regulations and supervisory approaches as they are proposed and implemented.

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•Prompt Corrective Action

Federal banking law mandates certain “prompt corrective actions,” which Federal banking agencies are required to take, and certain actions which they have discretion to take, based upon the capital category into which a Federally regulated depository institution falls. Regulations have been adopted by the Federal bank regulatory agencies setting forth detailed procedures and criteria for implementing prompt corrective action in the case of any institution that is not adequately capitalized.

Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions are required to meet the following capital level requirements in order to qualify as “well capitalized:”

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

An undercapitalized institution is required to file a written capital restoration plan, along with a performance guaranty by its holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on the payment of dividends, a limitation on asset growth and expansion, and in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain “management fees” to any “controlling person”. Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including increased reporting burdens and regulatory monitoring, a limitation on the institution’s ability to make acquisitions, open new branch offices, or engage in new lines of business, obligations to raise additional capital, restrictions on transactions with affiliates, and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed to be “critically undercapitalized” and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership. The Bank is currently regarded as “well capitalized” for regulatory capital purposes. See Note 27, “Regulatory Capital Requirements,” in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K for more information regarding the Bank’s and Corporation’s regulatory capital ratios.

•Gramm-Leach-Bliley Act

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

The GLB Act amended the Glass-Steagall Act to allow new “financial holding companies” (“FHC”) to offer banking, insurance, securities and other financial products to consumers. Specifically, the GLB Act amends section 4 of the Act in order to provide for a framework for the engagement in new financial activities. A bank holding company may elect to become a financial holding company if all its subsidiary depository institutions are well-capitalized and well-managed. If these requirements are met, a bank holding company may file a certification to that effect with the Federal Reserve Board and declare that it elects to become an FHC. After the certification and declaration is filed, the FHC may engage either de novo or through an acquisition in any activity that has been determined by the Federal Reserve Board to be financial in nature or incidental to such financial activity. Bank holding companies may engage in financial activities without prior notice to the Federal Reserve Board if those activities qualify under the new list in

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

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

•Community Reinvestment Act and Fair Lending

The Community Reinvestment Act requires banks to help serve the credit needs of their communities, including providing credit to low and moderate income individuals and areas. Should the Bank fail to serve adequately the communities it

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serves, potential penalties may include regulatory denials to expand branches, relocate, add subsidiaries and affiliates, expand into new financial activities and merge with or purchase other financial institutions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Consumer Financial Protection Bureau (“CFPB”), the U.S. Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution’s performance under the Community Reinvestment Act or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and future prospects.

•Privacy of Consumer Financial Information

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

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

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

•Consumer Protection Rules – Sale of Insurance Products

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

The rules provide that before the sale of insurance or annuity products can be completed, disclosures must be made that state (i) such insurance products are not deposits or other obligations of or guaranteed by the FDIC or any other agency of the United States, the Bank or its affiliates; and (ii) in the case of an insurance product that involves an investment risk, including an annuity, that there is an investment risk involved with the product, including a possible loss of value.

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

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

•Sarbanes-Oxley Act

The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) addresses, among other matters, increased disclosures; audit committees; certification of financial statements by the principal executive officer and the principal financial officer; evaluation by management of our disclosure controls and procedures and our internal control over financial reporting; auditor reports on our internal control over financial reporting; forfeiture of bonuses and profits made by directors and senior officers in the twelve (12) month period covered by restated financial statements; a prohibition on insider trading during Corporation stock blackout periods; disclosure of off-balance sheet transactions; a prohibition applicable to companies, other than federally

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insured financial institutions, on personal loans to their directors and officers; expedited filing of reports concerning stock transactions by a company's directors and executive officers; the formation of a public accounting oversight board; auditor independence; and increased criminal penalties for violation of certain securities laws.

•USA PATRIOT Act of 2001

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

•Government Policies and Future Legislation

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

The Trump Administration has indicated its intent to bring changes to the U.S. financial services industry that we cannot now predict. Public comments by President Donald J. Trump, as well as his appointees at various federal agencies, may suggest the Administration's intent to change policies and regulations that implement current federal law, including those implementing the Dodd-Frank Act. At this point we are unable to determine what impact the Trump Administration's policy changes might have on the Corporation or its subsidiaries.

•Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act")

The Dodd-Frank Act was passed by Congress on July 15, 2010, and was signed into law by President Obama on July 21, 2010. It is intended to promote financial stability in the U.S., reduce the risk of bailouts and protect against abusive financial services practices by improving accountability and transparency in the financial system and ending the concept of "too big to fail" institutions by giving regulators the ability to liquidate large financial institutions. It is the broadest overhaul of the U.S. financial system since the Great Depression and the overall impact on the Corporation and its subsidiaries is a general increase in costs related to compliance with the Dodd-Frank Act.

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

As discussed earlier, the Dodd-Frank Act requires the Federal Reserve Board to establish minimum consolidated capital requirements for bank holding companies that are as stringent as those required for insured depository institutions; the components of Tier I capital are restricted to capital instruments that are considered to be Tier I capital for insured depository institutions. In addition, the proceeds of trust preferred securities are excluded from Tier I capital unless (i) such securities are issued by bank holding companies with assets of less than \$500 million or (ii) such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than \$15

billion of assets.

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

The Dodd-Frank Act made many other changes in banking regulation. These include allowing depository institutions, for the first time, to pay interest on business checking accounts, requiring originators of securitized loans to retain a percentage of the risk for transferred loans, establishing regulatory rate-setting for certain debit card interchange fees and establishing a number of reforms for mortgage originations. Effective October 1, 2011, the debit-card interchange fee was capped at \$0.21 per

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transaction, plus an additional 5 basis point charge to cover fraud losses. These fees are much lower than the current market rates. The regulation only impacts banks with assets above \$10 billion.

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

Although many of the provisions of the Dodd-Frank Act are currently effective, there remain some regulations yet to be implemented. It is therefore difficult to predict at this time what impact the Dodd-Frank Act and implementing regulations will have on the Corporation and the Bank. The changes resulting from the Dodd-Frank Act could limit our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise materially and adversely affect us. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements could also materially and adversely affect us.

ITEM 1A. RISK FACTORS

Investment in the Corporation's Common Stock involves risk. The following list, which contains certain risks that may be unique to the Corporation and to the banking industry, is neither all-inclusive nor are the factors in any particular order.

Risks Related to Our Business

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

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

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

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

Climate change, severe weather, natural disasters, acts of war or terrorism, and other external events could significantly impact our business.

Natural disasters, including severe weather events of increasing strength and frequency due to climate change, acts of war or terrorism, and other adverse external events could have a significant impact on our ability to conduct business or upon third parties who perform operational services for us or our customers. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in lost revenue, or cause us to incur additional expenses.

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

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

Economic troubles may negatively affect our leasing business.

The Corporation's leasing business, which began operations in September 2006, consists of the nationwide leasing of various types of equipment to small- and medium-sized businesses. Economic sluggishness may result in higher credit losses than we would experience in our traditional lending business, as well as potential increases in state regulatory burdens such as state income taxes, personal property taxes and sales and use taxes.

A general economic slowdown could impact Wealth Management Division revenues.

A general economic slowdown may cause current clients to seek alternative investment opportunities with other providers, which would decrease the value of Wealth Management Division's assets under management and administration resulting in lower fee income to the Corporation.

Our ability to attract and maintain customer and investor relationships depends largely on our reputation.

Damage to our reputation could undermine the confidence of our current and potential customers and investors in our ability to provide high-quality financial services. Such damage could also impair the confidence of our counterparties and vendors and ultimately affect our ability to effect transactions. Maintenance of our reputation depends not only on our success in maintaining our service-focused culture and controlling and mitigating the various risks described in this report, but also on our success in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti-money laundering, customer personal information and privacy issues, customer and other third-party fraud, record-keeping, technology-related issues including but not limited to cyber fraud, regulatory investigations and any litigation that may arise from the failure or perceived failure to comply with legal and regulatory requirements. Maintaining our reputation also depends on our ability to successfully prevent third parties from infringing on our brands and associated trademarks and our other intellectual property. Defense of our reputation, trademarks and other intellectual property, including through litigation, could result in costs that could have a material adverse effect on our business, financial condition, or results of operations.

If we fail to comply with legal standards, we could incur liability to our clients or lose clients, which could negatively affect our earnings.

Managing or servicing assets with reasonable prudence in accordance with the terms of governing documents and applicable laws is important to client satisfaction, which in turn is important to the earnings and growth of our

investment businesses. Failure to comply with these standards, adequately manage these risks or manage the differing interests often involved in the exercise of fiduciary responsibilities could also result in liability.

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

All borrowers carry the potential to default and our remedies to recover may not fully satisfy money previously loaned. We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, which represents the Corporation's best estimate of probable credit losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of the Corporation, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance for loan losses reflects the Corporation's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic conditions;

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and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks using existing qualitative and quantitative information, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of additional loan charge-offs, based on judgments different than those of the Corporation. An increase in the allowance for loan losses results in a decrease in net income, and possibly risk-based capital, and may have a material adverse effect on our financial condition and results of operations.

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

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

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

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

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in the Corporation's attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;
- potential exposure to unknown or contingent liabilities of banks and businesses we acquire;
- the time and expense required to integrate the operations and personnel of the combined businesses;
- experiencing higher operating expenses relative to operating income from the new operations;
- creating an adverse short-term effect on our results of operations;
- losing key employees and customers as a result of an acquisition that is poorly received;
- risk of significant problems relating to the conversion of the financial and customer data of the entity being acquired into the Corporation's financial and customer product systems; and,
- potential impairment of intangible assets created in business acquisitions.

There is no assurance that we will be successful in overcoming these risks or any other problems encountered in connection with pending or potential acquisitions. Our inability to overcome these risks could have an adverse effect

on our levels of reported net income, return on average equity and return on average assets, and our ability to achieve our business strategy and maintain our market value.

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

The Corporation originates, sells and services residential mortgage loans. Changes in interest rates and pricing decisions by our loan competitors affect demand for the Corporation's residential mortgage loan products, the revenue realized on the sale of loans and revenues received from servicing such loans for others, ultimately reducing the Corporation's net income. New regulations, increased regulatory reviews, and/or changes in the structure of the secondary mortgage markets

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which the Corporation utilizes to sell mortgage loans may be introduced and may increase costs and make it more difficult to operate a residential mortgage origination business.

Our mortgage servicing rights could become impaired, which may require us to take non-cash charges.

Because we retain the servicing rights on many loans we sell in the secondary market, we are required to record a mortgage servicing right asset, which we test quarterly for impairment. The value of mortgage servicing rights is heavily dependent on market interest rates and tends to increase with rising interest rates and decrease with falling interest rates. If we are required to record an impairment charge, it would adversely affect our financial condition and results of operations.

Declines in asset values may result in impairment charges and may adversely affect the value of the Company's results of operations, financial condition and cash flows.

A majority of the Corporation's investment portfolio is comprised of securities which are collateralized by residential mortgages. These residential mortgage-backed securities include securities of U.S. government agencies, U.S. government-sponsored entities, and private-label collateralized mortgage obligations. The Corporation's securities portfolio also includes obligations of U.S. government-sponsored entities, obligations of states and political subdivisions thereof, and equity securities. The fair value of investments may be affected by factors other than the underlying performance of the issuer or composition of the obligations themselves, such as rating downgrades, adverse changes in the business climate and a lack of liquidity for resale of certain investment securities. Quarterly, the Corporation evaluates investments and other assets for impairment indicators in accordance with U.S. GAAP. A decline in the fair value of the securities in our investment portfolio could result in an other-than temporary impairment ("OTTI") write-down that would reduce our earnings. Further, given the significant judgments involved, if we are incorrect in our assessment of OTTI, this error could have a material adverse effect on our results of operation, financial condition, and cash flows. If the Corporation incurs OTTI charges that result in its falling below the "well capitalized" regulatory requirement, it may need to raise additional capital.

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

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

In addition, management must exercise judgment in appropriately applying many of our accounting policies and methods so they comply with generally accepted accounting principles. In some cases, management may have to select a particular accounting policy or method from two or more alternatives. In some cases, the accounting policy or method chosen might be reasonable under the circumstances and yet might result in our reporting materially different amounts than would have been reported if we had selected a different policy or method. Accounting policies are critical to fairly presenting our financial condition and results of operations and may require management to make difficult, subjective or complex judgments about matters that are uncertain.

FASB ASU 2016-13 will result in a significant change in how we recognize credit losses and may have a material impact on our financial condition or results of operations.

Issued in June 2016, ASU 2016-13 (Topic 326 -Credit Losses), commonly referenced as the Current Expected Credit Loss ("CECL"), eliminates the Provision for Loan and Lease Losses ("PLLL") and Allowance for Loan and Lease Losses ("ALLL") line items and establishes the Provision for Credit Losses ("PCL") and Allowance for Credit Losses ("ACL") line items.

Under the legacy "Incurred Loss" notion, management presents an ALLL intended to represent "probable and estimable" incurred but not yet realized credit losses on assets in scope. When management deems collection of contractual cashflows for an instrument unlikely, a specific reserve is calculated under ASC 310-10. Management further calculates a general reserve for performing assets under ASC 450-20, using historical loss experience and adjustments for several qualitative factors, including current economic conditions. The "Incurred Loss" standard does not allow for projections beyond the likely 'emergence period' of losses, or for forward-looking economic conditions; for example, loss contingencies in 2022 are not currently presented, nor is the presentation adjusted for the likelihood of future economic condition change.

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In contrast, the future accounting standard requires projection of credit loss over the contract lifetime of the asset, adjusted for prepayment tendencies. Further, management's specific expectations for the future economic environment must be incorporated in the projection, with loss expectations to revert to the long-run historical mean after such time as management can make or obtain a reasonable and supportable forecast. This valuation reserve will be established in the ACL and maintained through expense (provision) in the PCL. In the event that additional allocation is required to fund the ACL at adoption, investors will see a cumulative-effect (one-time) adjustment to retained earnings upon adoption of the new standard.

The new CECL standard will become effective for the Corporation for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. We are currently evaluating the impact the CECL model will have on our accounting, but we expect to recognize a one-time cumulative-effect adjustment to our allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. We cannot yet determine the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on our financial condition or results of operations.

Legal proceedings to which we are subject or may become subject may have a material adverse impact on our financial position and results of operations.

Like many banks and other financial services organizations in our industry, we are from time to time involved in various legal proceedings and subject to claims and other legal actions related to our business activities brought by customers, employees and others. All such legal proceedings are inherently unpredictable and, regardless of the merits of the claims, litigation is often expensive, time-consuming, disruptive to our operations and resources, and distracting to management. If resolved against us, such legal proceedings could result in excessive verdicts and judgments, injunctive relief, equitable relief, and other adverse consequences that may affect our financial condition and how we operate our business. Similarly, if we settle such legal proceedings, it may affect our financial condition and how we operate our business. Future court decisions, alternative dispute resolution awards, matters arising due to business expansion, or legislative activity may increase our exposure to litigation and regulatory investigations. In some cases, substantial non-economic remedies or punitive damages may be sought. Although we maintain liability insurance coverage; there can be no assurance that such coverage will cover any particular verdict, judgment, or settlement that may be entered against us, that such coverage will prove to be adequate, or that such coverage will continue to remain available on acceptable terms, if at all. Legal proceedings to which we are subject or may become subject may have a material adverse impact on our financial position and results of operations.

A return to recessionary conditions or a large and unexpected rise in interest rates could result in increases in our level of non-performing loans and/or reduce demand for our products and services, which would lead to lower revenue, higher loan losses and lower earnings.

Falling home prices and sharply reduced sales volumes, along with the collapse of the United States' subprime mortgage industry in 2008 that followed a national home price peak in mid-2006, significantly contributed to a recession that officially lasted until June 2009, although the effects continued thereafter. Dramatic declines in real estate values and high levels of foreclosures resulted in significant asset write-downs by financial institutions, which caused many financial institutions to seek additional capital, to merge with other institutions and, in some cases, to fail. A return of recessionary conditions and/or negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Declines in real estate values and sales volumes and a return to higher unemployment levels may result in higher than expected loan delinquencies, increases in our levels of nonperforming and classified assets and a decline in demand for our products and services. A large or unexpected rise in interest rates could materially impact consumer and business ability to repay, thus increasing our level of nonperforming loans and

reducing demand for loans. These negative events may cause us to incur losses and may adversely affect our capital, liquidity, and financial condition.

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

In response to the impact of economic conditions since 2008 on banks generally and on the FDIC Deposit Insurance Fund (the "DIF"), the FDIC changed its risk-based assessment system and increased base assessment rates. On November 12, 2009, the FDIC adopted a rule requiring banks to prepay three years' worth of premiums to replenish the depleted insurance fund. In February 2011, as required under the Dodd-Frank Act, the FDIC issued a ruling that changed the assessment base against which FDIC assessments for deposit insurance are made. Instead of FDIC insurance assessments being based upon an insured bank's deposits, FDIC insurance assessments are now generally based on an insured bank's total average assets minus average tangible equity. With this change, the Corporation expects that its overall FDIC insurance cost will decline. However, a change in the risk categories applicable to the Corporation's bank subsidiaries, further adjustments to base assessment rates, and any special assessments could have a material adverse effect on the Corporation.

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

The stability of other financial institutions could have detrimental effects on our routine funding transactions.

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

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

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

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

Management recognizes the need to grow both non-wholesale and wholesale funding sources to support earning asset growth and to provide appropriate liquidity. The Corporation's asset growth over the past few years has been supplemented by various forms of wholesale funding which is defined as wholesale deposits (primarily wholesale certificates of deposit) and borrowed funds (Federal Home Loan Bank of Pittsburgh ("FHLB"), Federal advances and Federal fund line borrowings). Wholesale funding at December 31, 2018 represented approximately 17.1% of total funding compared to 15.9% at December 31, 2017 and 18.0% at December 31, 2016. Wholesale funding is subject to certain practical limits such as the FHLB's Maximum Borrowing Capacity and the Corporation's liquidity targets. Additionally, regulators might consider wholesale funding beyond certain points to be imprudent and might suggest that future asset growth be reduced or halted.

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

The amount loaned to us is generally dependent on the value of the collateral pledged and the Corporation's financial condition. These lenders could reduce the percentages loaned against various collateral categories, eliminate certain

types of collateral and otherwise modify or even terminate their loan programs, particularly to the extent they are required to do so because of capital adequacy or other balance sheet concerns, or if disruptions in the capital markets occur. Any change or termination of our borrowings from the FHLB, the Federal Reserve or correspondent banks may have an adverse effect on our liquidity and profitability.

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

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

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announcements of developments related to our business, any of our competitors or the financial services industry in general;

fluctuations in our results of operations;

sales of substantial amounts of our securities into the marketplace;

general conditions in our markets or the worldwide economy;

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

changes in analysts' recommendations or projections;

our announcement of new acquisitions or other projects; and

compliance with regulatory changes.

Any failure of the Corporation, the Bank or their subsidiaries to comply with federal and state regulatory requirements could adversely affect our business.

The Corporation and the Bank are supervised by the Federal Reserve Bank, the Pennsylvania Department of Banking and Securities and the State of Delaware. Accordingly, the Corporation, the Bank and our subsidiaries are subject to extensive federal and state legislation, regulation and administrative decisions imposing requirements and restrictions on almost all aspects of our business operations and which are primarily designed to protect consumers, depositors and the government's deposit insurance funds, and is not designed to protect shareholders. These include, but are not limited to, the Bank Secrecy Act and anti-money laundering regulations, the USA PATRIOT Act, the Gramm Leach Bliley Act, the Equal Credit Opportunity Act, real estate-secured consumer lending regulations (such as Truth-in-Lending), Real Estate Settlement Procedures Act regulations, trust laws and regulations, and licensing and registration requirements for mortgage originators and insurance brokers. Federal and state banking regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and bank holding companies in the performance of their supervisory and enforcement duties.

Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. Regulations affecting banks and other financial institutions, such as the Dodd-Frank Act, are continuously reviewed and change frequently. For instance, the Dodd-Frank Act has changed the bank regulatory framework, created an independent consumer protection bureau that has assumed the consumer protection responsibilities of the various federal banking agencies, and established more stringent capital standards for banks and bank holding companies. The ultimate effect of such changes cannot be predicted. While the Corporation has policies and procedures designed to ensure compliance with the applicable laws, rule and regulations, there is risk that the Corporation and the Bank may be determined not to have complied with applicable requirements, and any failure, even if such failure was unintentional or inadvertent, could result in adverse action to be taken by regulators, including through formal or informal supervisory enforcement actions, and could result in the assessment of fines and penalties. In some circumstances, additional negative consequences also may result from regulatory action, including restrictions on the Corporation's business activities, acquisitions and other growth initiatives. The occurrence of one or more of these events may have a material adverse effect on our business and reputation.

There is also no assurance that laws, rules and regulations will not be proposed or adopted in the future, which could (i) make compliance much more difficult or expensive, (ii) restrict our ability to originate, modify, broker or sell loans or accept certain deposits, (iii) restrict our ability to foreclose on property securing loans, (iv) further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by us, or (v) otherwise materially and adversely affect our business or prospects for business. These risks could affect our deposit funding and the performance and value of our loan and investment securities portfolios, which could negatively affect our financial performance and financial condition.

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

The change in President and political party controlling the Executive Branch of the Federal Government resulting from the 2016 U.S. presidential election has brought changes to laws and regulations of the U.S. financial services industry, including the 2018 Economic Growth, Regulatory Relief, and Consumer Protection Act (“EGRRCPA”), and may continue to bring changes that we cannot now predict. The EGRRCPA, which amended the Dodd-Frank Act, directed certain federal banking regulatory agencies, including the Federal Reserve, to take action to reduce the regulatory burden on certain banks and financial institutions. Federal banking regulatory agencies are currently working on taking the actions congressionally mandated by the EGRRCPA; however, uncertainty about the timing and scope of any such changes as well as the cost of

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complying with a new regulatory regime, may negatively impact our business, at least in the short-term, even if the long-term impact of any such changes are positive for our business. Further, it is unknown what impact the 2018 congressional elections and change in leadership of the House of Representatives will have on future legislation.

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

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

- changes to regulatory capital requirements;
- exclusion of hybrid securities, including trust preferred securities, issued on or after May 19, 2010 from Tier I capital;
- creation of new government regulatory agencies (such as the Financial Stability Oversight Council, which will oversee systemic risk, and the Consumer Financial Protection Bureau, which will develop and enforce rules for bank and non-bank providers of consumer financial products);
- potential limitations on federal preemption;
- changes to deposit insurance assessments;
- regulation of debit interchange fees we earn;
- changes in retail banking regulations, including potential limitations on certain fees we may charge; and
- changes in regulation of consumer mortgage loan origination and risk retention.

In addition, the Dodd-Frank Act restricts the ability of banks to engage in certain proprietary trading or to sponsor or invest in private equity or hedge funds, commonly referred to as the Volcker Rule. The EGRRCPA provided an exemption from the Volcker Rule's restrictions for banks with less than \$10 billion in assets. The Dodd-Frank Act also contains provisions designed to limit the ability of insured depository institutions, their holding companies and their affiliates to conduct certain swaps and derivatives activities and to take certain principal positions in financial instruments.

Some provisions of the Dodd-Frank Act became effective immediately upon its enactment. Many provisions, however, require regulations to be promulgated by various federal agencies in order to be implemented, some of which have been proposed by the applicable federal agencies. The provisions of the Dodd-Frank Act may have unintended effects, which will not be clear until implementation. The changes resulting from the Dodd-Frank Act could limit our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise materially and adversely affect us. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements could also materially and adversely affect us.

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

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

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Governmental discretionary policies may impact the operations and earnings of the Corporation and its subsidiaries.

The operations of the Corporation and its subsidiaries are affected not only by general economic conditions, but also by the policies of various regulatory authorities. In particular, the Federal Reserve Board regulates monetary policy and interest rates in order to influence general economic conditions. These policies have a significant influence on overall growth and distribution of loans, investments and deposits and affect interest rates charged on loans or paid for deposits. Federal Reserve Board monetary policies have had a significant effect on the operating results of all financial institutions in the past and may continue to do so in the future.

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

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

Our ability to realize our deferred tax asset may be reduced as a result of the tax reform legislation enacted in late 2017, which could adversely impact results of operation and negatively affect our financial condition.

Realization of a deferred tax asset requires us to exercise significant judgment and is inherently uncertain because it requires the prediction of future occurrences. The deferred tax asset may be reduced in the future if estimates of future income or our tax planning strategies do not support the amount of the deferred tax asset. If it is determined that a valuation allowance of its deferred tax asset is necessary, the Corporation may incur a charge to earnings. The value of our deferred tax asset is directly related to the income tax rates in effect at the time of use. In late 2017, the U.S. Congress passed significant legislation reforming the Internal Revenue Code known as the Tax Cuts and Jobs Act of 2017 ("Tax Reform" or the "Tax Act"). On December 22, 2017, legislation commonly known as the Tax Cuts and Jobs Act (the "Tax Reform"), was signed into law. The Tax Act, among other changes, reduced the U.S. federal corporate income tax rate from 35% to 21%. As a result of the Tax Act, the Corporation recorded a \$15.2 million one-time income tax charge related to the re-measurement of the Corporation's net deferred tax asset, triggered by the Tax Act, during the year ended December 31, 2017, and a \$2.6 million tax benefit recorded during the year ended December 31, 2018 for certain discrete items included on our 2017 tax return that was filed during the fourth quarter of 2018.

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

Although we perform limited environmental due diligence in conjunction with originating loans secured by properties we believe have environmental risk, we could be subject to environmental liabilities on real estate properties we

foreclose upon and take title to in the normal course of our business. In connection with environmental contamination, we may be held liable to governmental entities or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties, or we may be required to investigate or clean-up hazardous or toxic substances at a property. The investigation or remediation costs associated with such activities could be substantial. Furthermore, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination even if we were the former owner of a contaminated site. The incurrence of a significant environmental liability could adversely affect our business, financial condition and results of operations. These risks are present even though we perform environmental due diligence on our collateral properties. Such diligence may not reflect all current risks or threats, and unforeseen or unpredictable future events may cause a change in the environmental risk profile of a property after a loan has been made.

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

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

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

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

We face security risks, including denial of service attacks, hacking, social engineering attacks targeting our customers and other institutions, malware intrusion or data corruption attempts, and identity theft that could result in the disclosure of confidential information, adversely affect our business or reputation, and create significant legal and financial exposure.

Our computer systems and network infrastructure and those of third parties, on which we are highly dependent, are subject to security risks and could be susceptible to cyber-attacks, such as denial of service attacks, hacking, terrorist activities, or identity theft. Our business relies on the secure processing, transmission, storage, and retrieval of confidential, proprietary, and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. In addition, to access our network, products, and services, our customers and other third parties may use personal mobile devices or computing devices that are outside of our network environment and are subject to their own cybersecurity risks.

We, our customers, regulators, and other third parties, including other financial services institutions and companies engaged in data processing, have been subject to, and are likely to continue to be the target of, cyber-attacks. These cyber-attacks include computer viruses, malicious or destructive code, phishing attacks, denial of service or information, ransomware, improper access by employees or vendors, attacks on personal email of employees, ransom demands to not expose security vulnerabilities in our systems or the systems of third parties or other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss, or destruction of confidential, proprietary, and other information of ours, our employees, our customers, or of third parties, damage our systems or otherwise materially disrupt our or our customers' or other third parties' network access or business operations. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents. Despite efforts to ensure the integrity of our systems and implement controls, processes, policies, and other protective measures, we may not be able to anticipate all security breaches, nor may we be able to implement

guaranteed preventive measures against such security breaches. Cyber threats are rapidly evolving, and we may not be able to anticipate or prevent all such attacks and could be held liable for any security breach or loss.

Cybersecurity risks for banking organizations have significantly increased in recent years in part because of the proliferation of new technologies, and the use of the internet and telecommunications technologies to conduct financial transactions. For example, cybersecurity risks may increase in the future as we continue to increase our mobile-payment and other internet-based product offerings and expand our internal usage of web-based products and applications. In addition, cybersecurity risks have significantly increased in recent years in part due to the increased sophistication and activities of organized crime groups, hackers, terrorist organizations, hostile foreign governments, disgruntled employees or vendors, activists and other external parties, including those involved in corporate espionage. Even the most advanced internal control environment may be vulnerable to compromise. Additionally, the existence of cyber attacks or security breaches at third parties with access to our data, such as vendors, may not be disclosed to us in a timely manner.

Although to date we have not experienced any material losses or other material consequences relating to technology failure, cyber attacks or other information or security breaches, whether directed at us or third parties, there can be no assurance

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that we will not suffer such losses or other consequences in the future. As a result, cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority.

We also face indirect technology, cybersecurity and operational risks relating to the customers, clients and other third parties with whom we do business or upon whom we rely to facilitate or enable our business activities, including financial counterparties; financial intermediaries such as clearing agents, exchanges and clearing houses; vendors; regulators; and providers of critical infrastructure such as internet access and electrical power. As a result of increasing consolidation, interdependence and complexity of financial entities and technology systems, a technology failure, cyber attack or other information or security breach that significantly degrades, deletes or compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including us. This consolidation interconnectivity and complexity increases the risk of operational failure, on both individual and industry-wide bases, as disparate systems need to be integrated, often on an accelerated basis. Any third-party technology failure, cyber attack or other information or security breach, termination or constraint could, among other things, adversely affect our ability to effect transactions, service our clients, manage our exposure to risk or expand our businesses.

Cyber attacks or other information or security breaches, whether directed at us or third parties, may result in a material loss or have material consequences. Furthermore, the public perception that a cyber attack on our systems has been successful, whether or not this perception is correct, may damage our reputation with customers and third parties with whom we do business. A successful penetration or circumvention of system security could cause us negative consequences, including loss of customers and business opportunities, disruption to our operations and business, misappropriation or destruction of our confidential information and/or that of our customers, or damage to our customers' and/or third parties' computers or systems, and could result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, additional compliance costs, and could adversely impact our results of operations and financial condition.

Failure to meet customer expectations for technology-driven products and services could reduce demand for bank and wealth services.

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

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

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

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

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

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

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interests. Among other things, our regulators consider our capital, liquidity, profitability, regulatory compliance and levels of goodwill and intangibles when considering acquisition and expansion proposals. Other factors, such as economic conditions and legislative considerations, may also impede or prohibit our ability to expand our market presence. If we are not able to successfully grow our business, our financial condition and results of operations could be adversely affected.

The financial services industry is very competitive, especially in the Corporation's market area, and such competition could affect our operating results.

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

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

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

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

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

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

We are not restricted from issuing additional common stock or other securities. Further, our shareholders may in the future approve the authorization of additional classes or series of stock which may have distribution or other rights

senior to the rights of our common stock, or may be convertible into or exchangeable for, or may represent the right to receive, common stock or substantially similar securities. The future issuance of shares of our common stock or any other such future equity classes or series could have a dilutive effect on the holders of our common stock.

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

From time to time the Corporation may engage in stock repurchases. Formal guidance from the Federal Reserve Board requires that bank holding companies, where certain conditions are triggered, provide prior notice to and consult with the Federal Reserve Board or reserve bank staff prior to implementing a stock repurchase plan. In addition to the formal guidance, the Federal Reserve Board appears to have adopted an informal policy of requiring bank holding companies to seek a safety and soundness “non-objection” from the appropriate regulatory staff prior to implementing a stock repurchase plan, regardless of the financial or capital position of the holding company. In some cases, examiners following this informal policy have required the holding company to produce additional information and materials for review. Given this informal and highly

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discretionary regulatory approach, it is possible that federal regulatory examiners could withhold their non-objection to a proposed stock repurchase plan, without regard to the Corporation's objective data and performance.

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

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

The Corporation is dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect the Corporation's operations and prospects.

The Corporation currently depends on the services of a number of key management personnel. The loss of key personnel could materially and adversely affect the results of operations and financial condition. The Corporation's success also depends in part on the ability to attract and retain additional qualified management personnel. Competition for such personnel is strong and the Corporation may not be successful in attracting or retaining the personnel it requires.

Risks Related to Ownership of Our Common Stock

The price of our common stock, like many of our peers, has fluctuated significantly over the recent past and may fluctuate significantly in the future, which may make it difficult for you to resell your shares of common stock at times or at prices you find attractive.

Stock price volatility may make it difficult for holders of our common stock to resell their common stock when desired and at desirable prices. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- Inaccurate management decisions regarding the fair value of assets and liabilities acquired which could materially affect our financial condition;
- Natural disasters, fires, and severe weather;
- Failure of internal controls;
- Rumors or erroneous information;
- Reliance on other companies to provide key components of our business processes;
- Meeting capital adequacy standards and the need to raise additional capital in the future if needed, including through future sales of our common stock;
- Actual or anticipated variations in quarterly or annual results of operations;
- Recommendations by securities analysts;
- Failure of securities analysts to cover, or continue to cover, us;
- Operating and stock price performance of other companies that investors deem comparable to us;
- News reports relating to trends, concerns and other issues in the financial services industry, including the failures of other financial institutions in the current economic downturn;

Perceptions in the marketplace regarding us and/or our competitors;
Departure of our management team or other key personnel;
New technology used, or services offered, by competitors;

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• Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;

• Failure to integrate acquisitions or realize anticipated benefits from acquisitions;

• Existing or increased regulatory and compliance requirements, changes or proposed changes in laws or regulations, or differing interpretations thereof affecting our business, or enforcement of these laws and regulations;

• Governmental investigations and actions;

• Changes in government regulations or restructuring of government sponsored enterprises such as Fannie Mae and Freddie Mac;

• New litigation or changes in existing litigation; and

• Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results as evidenced by the current volatility and disruption of capital and credit markets.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's headquarters are located at 801 Lancaster Ave, Bryn Mawr, Pennsylvania. As of December 31, 2018, the Corporation operates banking locations, including retirement home community locations, wealth management offices, insurance and risk management locations, and administrative offices in the following counties: Montgomery (14 leased, 7 owned), Chester (6 leased, 2 owned), Delaware (7 leased, 5 owned), Philadelphia (3 leased, 3 owned), and Dauphin (1 leased) Counties in Pennsylvania; New Castle County in Delaware (2 leased); and Mercer (2 leased) and Camden (1 leased) Counties in New Jersey. Management believes the current facilities are suitable for their present and intended purposes. For additional detail regarding our properties and equipment, See Note 6, "Premises and Equipment," in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

Business locations and hours are available on the Corporation's website at www.bmt.com

ITEM 3. LEGAL PROCEEDINGS

The information required by this Item is set forth in the "Legal Matters" discussion in Note 24, "Financial Instruments with Off-Balance Sheet Risk, Contingencies and Concentration of Credit Risk," in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K, which is included in Item 8 of this Report, and which is incorporated herein by reference in response to this Item.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Corporation's common stock is traded on the NASDAQ Stock Market under the symbol BMTC. As of February 19, 2019, there were 851 holders of record of the Corporation's common stock.

Comparison of Cumulative Total Return Chart

The following chart compares the yearly percentage change in the cumulative shareholder return on the Corporation's common stock during the five years ended December 31, 2018, with (1) the Total Return of the NASDAQ Community Bank Index; (2) the Total Return of the NASDAQ Market Index; (3) the Total Return of the SNL Bank and Thrift Index; and (4) the Total Return of the SNL Mid-Atlantic Bank Index. This comparison assumes \$100.00 was invested on December 31, 2013, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends.

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Five Year Cumulative Return Summary

	As of December 31,					
	2013	2014	2015	2016	2017	2018
Bryn Mawr Bank Corporation	\$100.00	\$106.39	\$100.25	\$151.39	\$162.00	\$128.81
NASDAQ Community Bank Index	\$100.00	\$104.66	\$114.65	\$159.10	\$163.19	\$138.83
NASDAQ Market Index	\$100.00	\$114.75	\$122.74	\$133.62	\$173.22	\$168.30
SNL Bank and Thrift	\$100.00	\$111.63	\$113.89	\$143.78	\$169.07	\$140.45
SNL Mid-Atlantic Bank	\$100.00	\$108.94	\$113.03	\$143.67	\$176.08	\$150.45

Equity Compensation Plan Information

The information set forth under the caption “Equity Plan Compensation Information” in the 2019 Proxy Statement is incorporated by reference herein. Additionally, equity compensation plan information is incorporated by reference to Item 12 of this Annual Report on Form 10-K. Additional information regarding the Corporation’s equity compensation plans can be found at Note 20, “Stock-Based Compensation,” in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

Issuer Purchases of Equity Securities

The following tables present the repurchasing activity of the Corporation during the fourth quarter of 2018:

Shares Repurchased in the 4th 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
October 1, 2018 – October 31, 2018	45,009	\$ 39.33	44,150	130,887
November 1, 2018 – November 30, 2018	57,026	\$ 39.77	57,026	73,861
December 1, 2018 – December 31, 2018	38,168	\$ 36.87	33,845	40,016
Total	140,203	\$ 38.84	135,021	

(1) On December 31, 2018, 1,282 shares were purchased by the Corporation’s deferred compensation plans through open market transactions.

Includes shares purchased to cover statutory tax withholding requirements on vested stock awards for certain

(2) officers of the Corporation or Bank as follows: 309 shares on October 1, 2018; 550 shares on October 5, 2018; 899 shares on December 1, 2018; and 2,142 shares on December 15, 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 December 31, 2018, the maximum number of shares remaining authorized for repurchase under the 2015 Program was 40,016.

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ITEM 6. SELECTED FINANCIAL DATA

Earnings (dollars in thousands)	As of or for the Year Ended December 31,					
	2018	2017	2016	2015	2014	
Interest income	\$ 181,055	\$ 129,559	\$ 116,991	\$ 108,542	\$ 82,906	
Interest expense	31,584	14,432	10,755	8,415	6,078	
Net interest income	149,471	115,127	106,236	100,127	76,828	
Provision for loan and lease losses	7,193	2,618	4,326	4,396	884	
Net interest income after provision for loan and lease losses	142,278	112,509	101,910	95,731	75,944	
Noninterest income	75,982	59,132	53,968	55,785	48,223	
Noninterest expense	140,303	114,395	101,674	125,590	81,319	
Income before income taxes	77,957	57,246	54,204	25,926	42,848	
Income taxes	14,165	34,230	18,168	9,172	15,005	
Net Income	\$ 63,792	\$ 23,016	\$ 36,036	\$ 16,754	\$ 27,843	
Per Share Data						
Weighted-average shares outstanding	20,234,792	17,150,125	16,859,623	17,488,325	13,566,239	
Dilutive potential common stock	155,375	248,798	168,499	267,996	294,801	
Adjusted weighted-average shares	20,390,167	17,398,923	17,028,122	17,756,321	13,861,040	
Earnings per common share:						
Basic	\$ 3.15	\$ 1.34	\$ 2.14	\$ 0.96	\$ 2.05	
Diluted	\$ 3.13	\$ 1.32	\$ 2.12	\$ 0.94	\$ 2.01	
Dividends paid or accrued	\$ 0.94	\$ 0.86	\$ 0.82	\$ 0.78	\$ 0.74	
Dividends paid or accrued per share to net income per basic common share	29.84	% 64.2	% 38.3	% 81.3	% 36.1	%
Shares outstanding at year end	20,163,816	20,161,395	16,939,715	17,071,523	13,769,336	
Book value per share	\$ 28.01	\$ 26.19	\$ 22.50	\$ 21.42	\$ 17.83	
Tangible book value per share	\$ 17.75	\$ 16.02	\$ 15.11	\$ 13.89	\$ 13.59	
Profitability Ratios						
Tax-equivalent net interest margin	3.80	% 3.69	% 3.76	% 3.75	% 3.93	%
Return on average assets	1.47	% 0.67	% 1.16	% 0.57	% 1.32	%
Return on average equity	11.78	% 5.76	% 9.75	% 4.49	% 11.56	%
Noninterest expense to net interest income and noninterest income	62.2	% 65.6	% 63.5	% 80.6	% 65.0	%
Noninterest income to net interest income and noninterest income	33.7	% 33.9	% 33.7	% 35.8	% 38.6	%
Average equity to average total assets	12.44	% 11.69	% 11.90	% 12.68	% 11.38	%
Financial Condition						
Total assets	\$ 4,652,485	\$ 4,449,720	\$ 3,421,530	\$ 3,030,997	\$ 2,246,506	
Total liabilities	4,087,781	3,921,601	3,040,403	2,665,286	2,001,032	
Total shareholders' equity	564,704	528,119	381,127	365,711	245,474	
Interest-earning assets	4,216,888	4,039,763	3,153,015	2,755,506	2,092,164	
Portfolio loans and leases	3,427,154	3,285,858	2,535,425	2,268,988	1,652,257	
Investment securities	753,628	701,744	573,763	352,916	233,473	
Goodwill	184,012	179,889	104,765	104,765	35,502	
Intangible assets	23,455	25,966	20,405	23,903	22,998	
Deposits	3,599,087	3,373,798	2,579,675	2,252,725	1,688,028	
Borrowings	427,847	496,837	423,425	378,509	283,970	

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Wealth assets under management, administration, supervision and brokerage	13,429,544	12,968,738	11,328,457	8,364,805	7,699,908
Capital Ratios					
Tier I leverage ratio (Tier I capital to total quarterly average assets)	9%06	9%10	8%73	9%02	9%54
Tier I capital to risk weighted assets	9%092	9%042	9%051	9%072	9%200
Total regulatory capital to risk weighted assets	9%430	9%392	9%235	9%261	9%287
Asset quality					
Allowance as a percentage of portfolio loans and leases	0%57	0%53	0%69	0%70	0%88
Non-performing loans and leases as a % of portfolio loans and leases	0%37	0%26	0%33	0%45	0%61

Information related to business combinations and accounting changes may be found under the caption “Nature of Business” at Note 1, “Summary of Significant Accounting Policies,” and Note 2, “Recent Accounting Pronouncements,” respectively, in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

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

Management’s Discussion and Analysis of Financial Condition and Results of Operations

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 43 banking locations, six wealth management offices and two insurance and risk management locations in the following counties: Montgomery, Chester, Delaware, Philadelphia, and Dauphin Counties in Pennsylvania; New Castle County in Delaware; and Mercer and Camden Counties in New Jersey. 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.

Since January 1, 2010, the Corporation and Bank completed the following ten acquisitions:

- Domenick & Associates (“Domenick”) - May 1, 2018
- Royal Bancshares of Pennsylvania, Inc. (“RBPI”) - December 15, 2017 (the “RBPI Merger”)
- Harry R. Hirshorn & Company, Inc. (“Hirshorn”) - May 24, 2017
- Robert J. McAllister Agency, Inc. (“RJM”) - April 1, 2015
- Continental Bank Holdings, Inc. (“CBH”) - January 1, 2015 (the CBH Merger)
- Powers Craft Parker and Beard, Inc. (“PCPB”) - October 1, 2014
- First Bank of Delaware (“FBD”) - November 17, 2012
- Davidson Trust Company (“DTC”) - May 15, 2012
- The Private Wealth Management Group of the Hershey Trust Company (“PWMG”) - May 11, 2011
- First Keystone Financial, Inc. (“FKB”) - July 1, 2010

For a more complete discussion regarding certain of these acquisitions, see Item 1 – Business – Business Combinations beginning at page 3 in this Form 10-K.

Results of Operations

The following is management’s discussion and analysis of the significant changes in the financial condition, results of operations, capital resources and liquidity presented in the accompanying Consolidated Financial Statements. The Corporation’s consolidated financial condition and results of operations are comprised primarily of the Bank’s financial condition and results of operations. Current performance does not guarantee, and may not be indicative of, similar performance in the future. For more information on the factors that could affect performance, see “Special Cautionary

Notice Regarding Forward Looking Statements” immediately following the index at the beginning of this document.

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

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Critical Accounting Policies, Judgments and Estimates

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

The Allowance for Loan and Lease Losses (the “Allowance”)

The Allowance involves a higher degree of judgment and complexity than other significant accounting policies. The Allowance is estimated with the objective of maintaining a reserve level believed by management to be sufficient to absorb estimated credit losses present in the loan portfolio as of the reporting date. Management's determination of the adequacy of the Allowance is based on frequent evaluations of the loan and lease portfolio and other relevant factors. Consideration is given to a variety of factors in establishing the estimate. Quantitative factors in the form of historical charge-off rates by portfolio segment are considered. In connection with these quantitative factors, management establishes what it deems to be an adequate look-back period (“LBP”) for the charge-off history. As of December 31, 2018, management utilized a five-year LBP, which it believes adequately captures the trends in charge-offs. In addition, management develops an estimate of a loss emergence period (“LEP”) for each segment of the loan portfolio. The LEP estimates the time between the occurrence of a loss event for a borrower and an actual charge-off of a loan. As of December 31, 2018, management utilized a two-year LEP for its commercial loan segments and a one-year LEP for its consumer loan segments based on analyses of actual charge-offs tracked back in time to the triggering event for the eventual loss. In addition, various qualitative factors are considered, including specific terms and conditions of loans and leases, underwriting standards, delinquency statistics, industry concentration, overall exposure to a single customer, adequacy of collateral, the dependence on collateral, and results of internal loan review, including a borrower's perceived financial and management strengths, the amounts and timing of the present value of future cash flows, and the access to additional funds. It should be noted that this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, the amounts and timing of expected cash flows on impaired loans and leases, the value of collateral, estimated losses on consumer loans and residential mortgages and the relevance of historical loss experience. The process also considers economic conditions and inherent risks in the loan and lease portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from management's estimates, additional provision for loan and lease losses (the “Provision”) may be required that would adversely impact earnings in future periods. See the section of this document titled Asset Quality and Analysis of Credit Risk beginning at page 43 for additional information.

Fair Value Measurement of Investment Securities Available-for-Sale and Assessment for Impairment of Certain Investment Securities

Management may designate its investment securities as held-to-maturity, available-for-sale or trading. Each of these designations affords different treatment for changes in the fair market values of investment securities in the Corporation's Consolidated Financial Statements that are otherwise identical. Should evidence emerge which indicates that management's intent or ability to maintain the securities as originally designated is not supported, reclassifications among the three designations may be necessary and, as a result, may require adjustments to the Corporation's Consolidated Financial Statements. As of December 31, 2018, the Corporation's investment portfolio was primarily comprised of investment securities classified as available for sale.

Valuation of Goodwill and Intangible Assets

Goodwill and intangible assets have been recorded on the books of the Corporation in connection with its acquisitions. Management completes a goodwill impairment analysis at least on an annual basis, or more often if events and circumstances indicate that there may be impairment. Management also reviews other intangible assets with finite lives for impairment if events and circumstances indicate that the carrying value may not be recoverable. There was no goodwill or intangible asset impairment recorded during the years ended December 31, 2018, 2017 or 2016. There was no impairment of identifiable intangible assets during the years ended December 31, 2018, 2017 or 2016. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

Other significant accounting policies are presented in Note 1, "Summary of Significant Accounting Policies," in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K. The Corporation's

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accounting policies have not substantively changed any aspect of its overall approach in the application of the foregoing policies.

Overview of General Economic, Regulatory and Governmental Environment

In 2018, the U.S. economy grew approximately 3%, which exceeded the 2% trend growth rate witnessed following the Great Recession of 2008-2009. We expect that the U.S. economic growth will continue in 2019, albeit at a slower pace relative to 2018, as the effects of stimulus measures (tax cuts, deregulation, fiscal spending) enacted at the end of 2017 and early in 2018 begin to wane. We would not be surprised to see growth rates start heading lower toward the 2% trend growth rate, especially in the second half of 2019.

The economy is showing late cycle attributes such as a flattening of the yield curve, more restrictive monetary policy, and tight labor market conditions. However, given that consumer spending, which accounts for roughly 70% of the U.S. economy, is showing no visible signs of abating.

The Federal Reserve Board ("FRB") was much more active in raising base interest rates during 2018, increasing the Fed Funds Target Rate 4 times. In contrast, following seven years of stable rates, the FRB raised the Target Rate higher 5 times between late 2015 and through 2017. Recent remarks from the Fed have been much less hawkish. Financial markets seem to think the FRB will proceed with caution when conducting monetary policy going forward given the sharp rise in equity prices during January 2019.

Unlike in 2017, which delivered favorable investment results across a wide assortment of different asset classes (stocks, bonds, commodities, etc.), 2018 was much more challenging for investors. A combination of rising rates, especially on the short end of the yield curve, and rising equity market volatility, resulted in most asset classes delivering flat-to-negative returns in 2018.

Executive Overview

The following Executive Overview provides a summary-level review of the results of operation for 2018 compared to 2017 and 2017 compared to 2016 as well as a comparison of the December 31, 2018 balance sheet to the December 31, 2017 balance sheet. More detailed information regarding these comparisons can be found in the sections that follow.

2018 Compared to 2017

Income Statement

The Corporation reported net income attributable to Bryn Mawr Bank Corporation of \$63.8 million, or \$3.13 diluted earnings per share for the year ended December 31, 2018, increases of \$40.8 million and \$1.81, respectively, as compared to net income attributable to Bryn Mawr Bank Corporation of \$23.0 million, or \$1.32 diluted earnings per share, for the year ended December 31, 2017. Return on average equity ("ROE") and return on average assets ("ROA") for the year ended December 31, 2018, were 11.78% and 1.47%, respectively, as compared to 5.76% and 0.67%, respectively, for the same period in 2017. Contributing to the net income increase were increases of \$34.4 million and \$16.9 million in net interest income and noninterest income, respectively, and a decrease of \$20.1 million in income tax expense, offset by increases of \$25.9 million and \$4.6 million in noninterest expense and Provision, respectively.

Tax-equivalent net interest income of \$149.9 million for the year ended December 31, 2018 increased \$34.0 million as compared to \$115.9 million for the year ended December 31, 2017. The increase primarily related to the increase of \$47.6 million in tax-equivalent interest and fees on loans and leases partially offset by the increase of \$11.9 million in interest expense on deposits. Average loans and leases for the year ended December 31, 2018 increased \$691.3 million from the same period in 2017 and experienced a 48 basis point increase in tax-equivalent yield. The increase in average loans and leases was partially related to the loans and leases acquired in the RBPI Merger which initially increased loans and leases by \$566.2 million, as well as organic loan growth between the periods. Average interest-bearing deposits for the year ended December 31, 2018 increased \$604.0 million from the same period in 2017 and experienced a 36 basis point increase in rates paid. The increase in average interest-bearing deposits was partially related to the interest-bearing deposits assumed in the RBPI Merger, which initially totaled \$494.8 million.

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The Provision of \$7.2 million for the year ended December 31, 2018 increased \$4.6 million as compared to \$2.6 million for the year ended December 31, 2017. Primary contributors to the increased Provision were the \$2.7 million increase in net loan and lease charge-offs as well as the additional Allowance associated with increased loan volume.

Noninterest income of \$76.0 million for the year ended December 31, 2018 increased \$16.9 million, or 28.5%, as compared to \$59.1 million for the year ended December 31, 2017. Other operating income increased \$6.2 million, primarily due to the \$4.0 million increase in recoveries of purchase accounting fair value marks resulting from the pay off of purchased credit impaired loans acquired in the RBPI Merger. Fees for wealth management services increased \$3.6 million, primarily related to the \$460.8 million increase in wealth assets under management, administration, supervision and brokerage from \$12.97 billion at December 31, 2017 to \$13.43 billion at December 31, 2018. Capital markets revenue increased \$2.5 million, primarily related to a full year of operations for our capital markets group, which was formed during the second quarter on 2017. Insurance commissions increased \$2.2 million partially due to the May 2017 Hirshorn acquisition and the May 2018 Domenick acquisition, in addition to organic growth.

Noninterest expense of \$140.3 million for the year ended December 31, 2018 increased \$25.9 million, or 22.6%, as compared to \$114.4 million for the year ended December 31, 2017. These increases were largely due to the additional expenses associated with the staff and facilities assumed in the RBPI Merger and to a lesser extent, recruiting efforts of certain key leadership positions as well as increases in our incentive accruals.

Balance Sheet

Asset quality as of December 31, 2018 remains stable, with nonperforming loans and leases comprising 0.37% of portfolio loans and leases as compared to 0.26% of portfolio loans and leases as of December 31, 2017. The Allowance of \$19.4 million was 0.57% of portfolio loans and leases as of December 31, 2018, as compared to \$17.5 million, or 0.53% of portfolio loans and leases at December 31, 2017.

Total portfolio loans and leases of \$3.43 billion as of December 31, 2018 increased \$141.3 million, or 4.3%, from \$3.29 billion as of December 31, 2017. Increases of \$134.1 million, \$35.5 million, \$29.1 million, and \$8.7 million in commercial mortgages, residential mortgages, leases and consumer loans, respectively, were offset by decreases of \$31.4 million, \$23.7 million, and \$10.9 million in construction loans, commercial and industrial loans, and home equity loans and lines, respectively.

Investment securities available for sale of \$737.4 million as of December 31, 2018 increased \$48.2 million, or 7.0%, from \$689.2 million as of December 31, 2017. Increases of \$44.8 million, \$14.9 million, and \$2.6 million in U.S. government and agency securities, mortgage-backed securities, and collateralized mortgage obligations, respectively, were partially offset by decreases of \$10.0 million and \$3.5 million in state & political subdivision securities and other investments, respectively.

Total deposits of \$3.60 billion as of December 31, 2018 increased \$225.3 million, or 6.7%, from \$3.37 billion as of December 31, 2017. Increases of \$183.4 million, \$153.3 million, and \$10.5 million in interest-bearing demand accounts, wholesale time deposits, and retail time deposits, respectively, were partially offset by decreases of \$91.5 million, \$23.2 million, and \$7.2 million in savings accounts, noninterest-bearing demand accounts, and wholesale non-maturity deposits, respectively.

Wealth Assets

Wealth assets under management, administration, supervision and brokerage of \$13.43 billion as of December 31, 2018

increased \$460.8 million, or 3.55%, from \$12.97 billion as of December 31, 2017. The increase in wealth assets was comprised of a \$581.3 million increase in fixed rate flat-fee account balances, offset by a \$120.5 million decrease in account balances whose fees are based on market value.

2017 Compared to 2016

Income Statement

The Corporation reported net income attributable to Bryn Mawr Bank Corporation of \$23.0 million, or \$1.32 diluted earnings per share for the year ended December 31, 2017, decreases of \$13.0 million and \$0.80, respectively, as compared to net income attributable to Bryn Mawr Bank Corporation of \$36.0 million, or \$2.12 diluted earnings per share, for the year ended December 31, 2016. ROE and ROA for the year ended December 31, 2017, were 5.76% and 0.67%, respectively, as compared to 9.75% and 1.16%, respectively, for the same period in 2016.

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The primary cause for the \$13.0 million decrease in net income was the one-time income tax charge of \$15.2 million recorded for the re-measurement of the Corporation's net deferred tax asset. The re-measurement was required as a result of the passage of Tax Reform signed into law on December 22, 2017, which lowered the top federal corporate income tax rate from 35% to 21%. In addition to this one-time tax charge, due diligence, merger-related and merger integration costs increased by \$6.1 million year over year primarily related to the RBPI Merger.

Tax-equivalent net interest income of \$115.9 million for the year ended December 31, 2017 increased \$9.0 million as compared to \$106.9 million for the year ended December 31, 2016. The increase primarily related to the increases of \$10.5 million and \$2.2 million in tax-equivalent interest and fees on loans and leases and tax-equivalent interest income on available for sale investment securities, respectively, partially offset by an increase of \$2.9 million in interest expense on deposits. Average loans and leases for the year ended December 31, 2017 increased \$235.5 million from the same period in 2016 with yields remaining relatively flat. Average interest-bearing deposits for the year ended December 31, 2017 increased \$179.8 million from the same period in 2016 and experienced a 12 basis point increase in rates paid.

The Provision of \$2.6 million for the year ended December 31, 2017 decreased \$1.7 million as compared to \$4.3 million for the year ended December 31, 2016. Slightly lower net loan and lease charge-offs for 2017 as compared to 2016, combined with stable credit quality and improvements in certain qualitative indicators which factor into the calculation of the Allowance, accounted for the decrease in Provision.

Noninterest income of \$59.1 million for the year ended December 31, 2017 increased \$5.2 million, or 9.6%, as compared to \$54.0 million for the year ended December 31, 2016. An increase of \$2.0 million in fees for wealth management services resulted as wealth assets under management, administration, supervision and brokerage increased \$1.64 billion from December 31, 2016 to December 31, 2017. Insurance commissions increased \$867 thousand for the year ended December 31, 2017 as compared to the same period in 2016, due to the May 2017 acquisition of Hirshorn Boothby. Revenue from our capital markets initiative, which was launched in the second quarter of 2017, contributed \$2.4 million to noninterest income for the twelve-months ended December 31, 2017. These increases were partially offset by a \$607 thousand decrease in net gain on sale of loans.

Noninterest expense of \$114.4 million for the year ended December 31, 2017 increased \$12.7 million, or 12.5%, as compared to \$101.7 million for the year ended December 31, 2016. The increase was largely related to a \$6.1 million increase in due diligence and merger-related expenses primarily associated with the RBPI Merger. A \$5.8 million increase in salaries and wages was largely due to staffing increases from our capital markets initiative, the Hirshorn Boothby acquisition and the Princeton wealth management office and to a lesser extent, the December 15, 2017 RBPI Merger. Annual salary and wage increases and increases in incentive compensation also contributed to the increase.

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.

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Net Interest Income

Rate/Volume Analyses (Tax-equivalent Basis)*

The rate volume analysis in the table below analyzes dollar changes in the components of interest income and interest expense as they relate to the change in average balances (volume) and the change in average interest rates (rate) of tax-equivalent net interest income for the years 2018 as compared to 2017, and 2017 as compared to 2016. The change in interest income / expense due to both volume and rate has been allocated to changes due to volume.

(dollars in thousands) increase/(decrease)	Year Ended December 31,					
	2018 Compared to 2017			2017 Compared to 2016		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Interest-bearing deposits with banks	\$18	\$72	\$90	\$(35)	\$41	\$6
Investment securities – taxable	2,131	1,494	3,625	1,427	1,018	2,445
Investment securities – nontaxable	(215)	(14)	(229)	(216)	49	(167)
Loans and leases	31,524	16,109	47,633	10,733	(267)	10,466
Total interest income	33,458	17,661	51,119	11,909	841	12,750
Interest expense:						
Savings, NOW and market rate accounts	792	4,779	5,571	161	643	804
Wholesale deposits	695	2,261	2,956	186	639	825
Retail time deposits	2,147	1,130	3,277	500	786	1,286
Borrowed funds – short-term	552	1,450	2,002	226	1,071	1,297
Borrowed funds – long-term	(1,096)	253	(843)	(971)	238	(733)
Subordinated notes	3,203	(256)	2,947	182	(30)	152
Junior subordinated debentures	945	297	1,242	46	—	46
Total interest expense	7,238	9,914	17,152	330	3,347	3,677
Interest differential	\$26,220	\$7,747	\$33,967	\$11,579	\$(2,506)	\$9,073

* The tax rate used in the calculation of the tax-equivalent income is 21% for 2018 and 35% for 2017 and 2016, respectively.

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Analysis of Interest Rates and Interest Differential

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

(dollars in thousands)	For the Year Ended December 31,			2016			Interest Income/Expense	Average Rates Earned/Paid	
	2018	2017	2016	Average Balance	Average Rates Earned/Paid	Average Balance			
Assets:									
Interest-bearing deposits with banks	\$37,550	\$264	0.70 %	\$34,122	\$174	0.51 %	\$43,214	\$168	0.39 %
Investment securities - available for sale:									
Taxable	513,114	11,652	2.27 %	409,813	8,147	1.99 %	329,161	5,784	1.76 %
Tax -Exempt	16,966	346	2.04 %	27,062	575	2.12 %	38,173	742	1.94 %
Total investment securities – available for sale	530,080	11,998	2.26 %	436,875	8,722	2.00 %	367,334	6,526	1.78 %
Investment securities – held to maturity	8,232	39	0.47 %	5,621	34	0.60 %	2,060	4	—
Investment securities – trading	8,237	169	2.05 %	4,185	54	1.29 %	3,740	2	0.05 %
Loans and leases ⁽¹⁾⁽²⁾⁽³⁾	3,356,295	169,024	5.04 %	2,664,944	121,391	4.56 %	2,429,416	110,925	4.57 %
Total interest-earning assets	3,940,394	181,494	4.61 %	3,145,747	130,375	4.14 %	2,845,764	117,625	4.13 %
Cash and due from banks	9,853			13,293			16,317		
Allowance for loan and lease losses	(18,447)			(17,181)			(17,159)		
Other assets	420,322			274,287			260,728		
Total assets	\$4,352,122			\$3,416,146			\$3,105,650		
Liabilities:									
Savings, NOW, and market rate accounts	\$1,715,239	\$8,860	0.52 %	\$1,383,560	\$3,289	0.24 %	\$1,292,228	\$2,485	0.19 %
Wholesale deposits	251,384	5,021	2.00 %	188,179	2,065	1.10 %	163,724	1,240	0.76 %
Time deposits	539,934	6,671	1.24 %	330,797	3,394	1.03 %	266,772	2,108	0.79 %
Total interest-bearing deposits	2,506,557	20,552	0.82 %	1,902,536	8,748	0.46 %	1,722,724	5,833	0.34 %
Short-term borrowings	178,582	3,392	1.90 %	128,008	1,390	1.09 %	37,041	93	0.25 %

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Long-term FHLB advances	93,503	1,777	1.90 %	161,004	2,620	1.63 %	225,815	3,353	1.48 %
Subordinated notes	98,462	4,575	4.65 %	33,153	1,628	4.91 %	29,503	1,476	5.00 %
Junior subordinated debt	21,491	1,288	5.99 %	997	46	4.61 %	—	—	—
Total interest-bearing liabilities	2,898,595	31,584	1.09 %	2,225,698	14,432	0.65 %	2,015,083	10,755	0.53 %
Noninterest-bearing deposits	856,506			751,069			687,134		
Other liabilities	55,436			40,109			33,904		
Total noninterest-bearing liabilities	911,942			791,178			721,038		
Total liabilities	3,810,537			3,016,876			2,736,121		
Shareholders' equity	541,585			399,270			369,529		
Total liabilities and shareholders' equity	\$4,352,122			\$3,416,146			\$3,105,650		
Net interest spread			3.52 %			3.49 %			3.60 %
Effect of noninterest-bearing sources			0.28 %			0.20 %			0.16 %
Net interest income/margin on earning assets		\$ 149,910	3.80 %		\$ 115,943	3.69 %		\$ 106,870	3.76 %
Tax-equivalent adjustment ⁽⁴⁾		\$ 439	0.01 %		\$ 816	0.03 %		\$ 634	0.02 %

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- (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 \$1.5 million, \$947 thousand and \$522 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.
- (4) Tax rate used for tax-equivalent calculations is 21% for 2018 and 35% for 2017 and 2016.

Tax-Equivalent Net Interest Income and Margin – 2018 Compared to 2017

Tax-equivalent net interest income of \$149.9 million for the year ended December 31, 2018 increased \$34.0 million as compared to \$115.9 million for the year ended December 31, 2017. Tax-equivalent net interest margin of 3.80% for the year ended December 31, 2018 increased eleven basis points as compared to 3.69% for the year ended December 31, 2017.

Tax-equivalent interest and fees on loans and leases of \$169.0 million for the year ended December 31, 2018 increased \$47.6 million as compared to \$121.4 million for the year ended December 31, 2017. Average loans and leases for the year ended December 31, 2018 increased \$691.3 million from the same period in 2017 and experienced a 48 basis point increase in tax-equivalent yield. The increase in average loans and leases was primarily related to the loans and leases acquired in the RBPI Merger which initially increased loans and leases by \$566.2 million, as well as organic loan growth between the periods.

Tax-equivalent interest income on available for sale investment securities of \$12.0 million for the year ended December 31, 2018 increased \$3.3 million as compared to \$8.7 million for the year ended December 31, 2017. Average available for sale investment securities for the year ended December 31, 2018 increased \$93.2 million from the same period in 2017 and experienced a 26 basis point increase in tax-equivalent yield.

Partially offsetting the effect on net interest income associated with the increase in average balances and yields in loans and leases and available for sale investment securities were increases in interest expense on deposits and borrowings. Interest expense on interest-bearing deposits of \$20.6 million for the year ended December 31, 2018 increased \$11.9 million as compared to \$8.7 million for the year ended December 31, 2017. Average interest-bearing deposits for the year ended December 31, 2018 increased \$604.0 million from the same period in 2017 and experienced a 36 basis point increase in rates paid. The increase in average interest-bearing deposits was primarily related to the interest-bearing deposits assumed in the RBPI Merger, which initially totaled \$494.8 million.

Interest expense on borrowings of \$11.0 million for the year ended December 31, 2018 increased \$5.3 million as compared to \$5.7 million for the year ended December 31, 2017. The increase related to increases in interest expense on subordinated notes, short-term borrowings, and junior subordinated debt of \$2.9 million, \$2.0 million, and \$1.2 million, respectively, partially offset by a decrease in interest expense on long-term FHLB advances of \$843 thousand. Average subordinated notes for the year ended December 31, 2018 increased \$65.3 million from the same period in 2017 and experienced a 26 basis point decrease in rates paid. 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. Average short-term borrowings and junior subordinated notes for the year ended December 31, 2018 increased \$50.6 million and \$20.5 million, respectively, from the same period in 2017 and experienced an 81 and 138 basis point increase, respectively, in rates paid. The volume increase in junior subordinated debt was related to the \$21.4 million of floating rate junior subordinated debentures assumed in the RBPI Merger.

Tax-Equivalent Net Interest Income and Margin – 2017 Compared to 2016

Tax-equivalent net interest income of \$115.9 million for the year ended December 31, 2017 increased \$9.0 million as compared to \$106.9 million for the year ended December 31, 2016. Tax-equivalent net interest margin of 3.69% for the year ended December 31, 2017 decreased seven basis points as compared to 3.76% for the year ended December 31, 2016.

Tax-equivalent interest and fees on loans and leases of \$121.4 million for the year ended December 31, 2017 increased \$10.5 million as compared to \$110.9 million for the year ended December 31, 2016. Average loans and leases for the year ended December 31, 2017 increased \$235.5 million from the same period in 2016 with yields remaining relatively flat.

Tax-equivalent interest income on available for sale investment securities of \$8.7 million for the year ended December 31, 2017 increased \$2.2 million as compared to \$6.5 million for the year ended December 31, 2016. Average available for sale investment securities for the year ended December 31, 2017 increased \$69.5 million from the same period in 2017 and experienced a 22 basis point increase in tax-equivalent yield.

Partially offsetting the effect on net interest income associated with the increase in average balances and yields in loans and leases and available for sale investment securities were increases in interest expense on deposits and borrowings.

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Interest expense on interest-bearing deposits of \$8.7 million for the year ended December 31, 2017 increased \$2.9 million as compared to \$5.8 million for the year ended December 31, 2016. Average interest-bearing deposits for the year ended December 31, 2017 increased \$179.8 million from the same period in 2016 and experienced a 12 basis point increase in rates paid.

Interest expense on borrowings of \$5.7 million for the year ended December 31, 2017 increased \$762 thousand as compared to \$4.9 million for the year ended December 31, 2016. The increase primarily related to increases in interest expense on short-term borrowings and subordinated notes of \$1.3 million and \$152 thousand, respectively, partially offset by a decrease in interest expense on long-term FHLB advances of \$733 thousand. Average borrowings for the year ended December 31, 2017 increased \$30.8 million from the same period in 2016 and experienced an 8 basis point increase in rates paid.

Tax-Equivalent Net Interest Margin – Quarterly Comparison

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

Quarter	Year	Earning-Asset Yield	Interest-Bearing Liability Cost	Net Interest Spread	Effect of Non-Bearing Interest-Sources	Tax-Equivalent Net Interest Margin
4 th	2018	4.74 %	1.30 %	3.44 %	0.35 %	3.79 %
3 rd	2018	4.54 %	1.16 %	3.38 %	0.31 %	3.69 %
2 nd	2018	4.57 %	1.02 %	3.55 %	0.26 %	3.81 %
1 st	2018	4.58 %	0.87 %	3.71 %	0.23 %	3.94 %
4 th	2017	4.15 %	0.74 %	3.41 %	0.21 %	3.62 %

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 changes associated with interest rate movements and to achieve sustainable growth in net interest income. The Corporation's Asset Liability Committee ("ALCO"), using policies 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, 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.

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Summary of Interest Rate Simulation

	Change in Net Interest Income Over the Twelve Months Beginning After December 31, 2018			Change in Net Interest Income Over the Twelve Months Beginning After December 31, 2017		
	Amount	Percentage		Amount	Percentage	
+300 basis points	\$5,644	3.74	%	\$15,953	10.66	%
+200 basis points	\$3,734	2.47	%	\$10,644	7.11	%
+100 basis points	\$1,860	1.23	%	\$5,316	3.55	%
-100 basis points	\$(6,546)	(4.34)	%	\$(6,913)	(4.62)	%

The above interest rate simulation suggests that the Corporation's balance sheet is asset sensitive as of December 31, 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 December 31, 2018 than it was as of December 31, 2017. The decrease is related to a change on the mix and repricing characteristics of the retail deposits as well as an increase in fixed rate assets as a percentage of total assets. The improvement of the change in the 100 basis point decrease in rate is related to the Bank's less asset sensitive position as previously described.

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 the emergent 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.

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. 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. These assumptions are also reflected in the above interest rate simulation. The following table presents the Corporation's gap analysis as of December 31, 2018:

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(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	\$34.4	\$—	\$—	\$—	\$—	\$34.4
Investment securities ⁽¹⁾	222.1	54.4	346.5	130.6	—	753.6
Loans and leases ⁽²⁾	1,346.5	385.3	1,339.9	357.2	—	3,428.9
Allowance	—	—	—	—	(19.4)	(19.4)
Cash and due from banks	—	—	—	—	14.1	14.1
Other assets	—	—	—	—	440.9	440.9
Total assets	\$1,603.0	\$439.7	\$1,686.4	\$487.8	\$435.6	\$4,652.5
Liabilities and shareholders' equity:						
Demand, noninterest-bearing	\$25.3	\$76.0	\$263.8	\$536.5	\$—	\$901.6
Savings, NOW and market rate	86.2	246.7	728.5	713.1	—	1,774.5
Time deposits	87.9	326.3	126.4	2.1	—	542.7
Wholesale non-maturity deposits	55.0	—	—	—	—	55.0
Wholesale time deposits	185.6	139.7	—	—	—	325.3
Short-term borrowings	252.4	—	—	—	—	252.4
Long-term FHLB advances	—	28.3	27.1	—	—	55.4
Subordinated notes	—	—	98.5	—	—	98.5
Junior subordinated debentures	21.6	—	—	—	—	21.6
Other liabilities	—	—	—	—	60.8	60.8
Shareholders' equity	20.2	60.5	322.7	161.3	—	564.7
Total liabilities and shareholders' equity	\$734.2	\$877.5	\$1,567.0	\$1,413.0	\$60.8	\$4,652.5
Interest-earning assets	\$1,603.0	\$439.7	\$1,686.4	\$487.8	\$—	\$4,216.9
Interest-bearing liabilities	688.7	741.0	980.5	715.2	—	3,125.4
Difference between interest-earning assets and interest-bearing liabilities	\$914.3	\$(301.3)	\$705.9	\$(227.4)	\$—	\$1,091.5
Cumulative difference between interest earning assets and interest-bearing liabilities	\$914.3	\$613.0	\$1,318.9	\$1,091.5	\$—	\$1,091.5
Cumulative earning assets as a % of cumulative interest-bearing liabilities	233	% 143	% 155	% 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.

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.

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Provision for Loan and Lease Losses

General Discussion of the Allowance for Loan and Lease Losses

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

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

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

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

The four components of the Allowance are as follows:

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

Historical Charge-Off Component - Homogeneous pools of loans are evaluated to determine average historic charge-off rates. Management applies a rolling, twenty quarter charge-off history as a look-back period to determine these average charge-off rates. Management evaluates the length of this look-back period to determine its appropriateness. In addition, management develops an estimate of a loss emergence period for each segment of the loan portfolio. The loss emergence period estimates the time between the occurrence of a loss event for a borrower and an actual charge-off of a loan.

Qualitative Factors Component - Various qualitative factors are considered as they relate to the different homogeneous loan pools to adjust the historic charge-off rates so that they reflect current economic conditions that may not be accurately reflected in the historic charge-off rates. These factors include delinquency trends, economic conditions, loan terms, credit grades, concentrations of credit, regulatory environment and other relevant factors. The resulting adjustments are combined with the historic charge-off rates and result in an allocation rate for each homogeneous loan pool.

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

As part of the process of calculating 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 employees as well as an external loan review service. The results of these reviews are reflected in the risk grade assigned to each loan. These internally assigned grades are as follows:

Pass - Loans considered satisfactory with no indications of deterioration.

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

Substandard - Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have well-defined weaknesses that may jeopardize the

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liquidation of the collateral and repayment 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. Loan balances classified as doubtful have been reduced by partial charge-offs and are carried at their net realizable values.

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

Refer to Section F, "Allowance for Loan and Lease Losses," of Note 5, "Loans and Leases," in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K for details regarding credit quality indicators associated with the Corporation's loan and lease portfolio.

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

- Commercial mortgage⁽¹⁾
- Home equity lines and loans
- Residential mortgage
- Construction
- Commercial and industrial
- Consumer
- Leases

(1) During 2018 management further segmented commercial mortgages between owner-occupied and non-owner occupied to account for different risk profiles and sensitivity to market factors that are attributed to each sub-segment. The commercial mortgage segment for 2018, as disclosed within this Form 10-K, includes both owner-occupied and non-owner occupied for comparability to prior periods.

Refer to Note 5, "Loans and Leases," in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K and the section of this MD&A under the heading Portfolio Loans and Leases for details of the Corporation's loan and lease portfolio, broken down by portfolio segment.

Impairment Measurement - In accordance with guidance provided by ASC 310-10, "Receivables", the Corporation employs one of three methods to determine and measure impairment:

- the Present Value of Future Cash Flow Method;
- the Fair Value of Collateral Method;
- the Observable Market Price of a Loan Method.

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

Nonaccrual Loans – In general, loans and leases that are delinquent on contractually due principal or interest payments for more than 89 days are placed on nonaccrual status and any unpaid interest is reversed as a charge to interest income. When the loan resumes payment, all payments (principal and interest) are applied to reduce principal. After a

period of six months of satisfactory performance, the loan may be placed back on accrual status. Any interest payments received during the nonaccrual period that had been applied to reduce principal are reversed and recorded as a deferred fee which accretes to interest income over the remaining term of the loan or lease. In certain cases, management may have information about a loan or lease that may indicate a future disruption or curtailment of contractual payments. In these cases, management will preemptively place the loan or lease on nonaccrual status.

Troubled Debt Restructurings (“TDRs”) – Management follows guidance provided by ASC 310-40, “Troubled Debt Restructurings by Creditors.” A restructuring of a debt constitutes a TDR if the creditor, for economic or legal reasons related to the debtor’s financial difficulties, grants a concession to the debtor that it would not otherwise consider in the normal course of business. A concession may include an extension of repayment terms which would not normally be granted, a reduction of interest

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

Refer to Section G, “Troubled Debt Restructurings,” of Note 5, “Loans and Leases,” in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

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

- Open-ended consumer loans exceeding 180 days past due.
- Closed-ended consumer loans exceeding 120 days past due.
- All commercial/business purpose loans exceeding 180 days past due.
- All leases exceeding 120 days past due.

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

Refer to Section F, “Allowance for Loan and Lease Losses,” of Note 5, “Loans and Leases,” in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K for more information regarding the Corporation's charge-offs and factors which influenced management’s judgment with respect thereto.

Loans Acquired in Mergers and Acquisitions

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

Certain loans were acquired which exhibited deteriorated credit quality since origination and for which management does not expect to collect all contractual payments. Accounting for these purchased credit-impaired (“PCI”) loans is done in accordance with ASC 310-30, “Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality”. The loans were recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition on these loans is based on a reasonable expectation about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral indeterminate, remain on non-accrual status and have no accretable yield. On a regular basis, at least quarterly, an assessment is made on PCI loans to determine if there has been any improvement or deterioration of the expected cash flows. If there has been improvement, an adjustment is made to increase the recognition of interest on the PCI loan, as the estimate of expected loss on the loan is reduced. Conversely, if there is deterioration in the expected cash flows of a PCI loan, an allowance is recorded in connection with the loan. Management evaluates PCI loans individually for further impairment as well as for improvements to expected cash flows.

Loans acquired in acquisitions which do not exhibit deteriorated credit quality at the time of acquisition are accounted for under ASC 310-20 and receive a loan mark based on a credit and interest-rate analysis. The resulting discount or premium is accreted or amortized, respectively, to interest income over their remaining maturity. These non-impaired

acquired loans, along with the balance of the Corporation's loan and lease portfolio are evaluated on either an individual basis or on a collective basis for impairment. For more information regarding the Corporation's impaired loans and leases, refer to Section F, "Allowance for Loan and Lease Losses," and Section H, "Impaired Loans," of Note 5, "Loans and Leases," in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K. For more information regarding loan marks, refer to Section I, "Loan Mark," of Note 5, "Loans and Leases," in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

Asset Quality and Analysis of Credit Risk

As of December 31, 2018, total non-performing loans and leases were \$12.8 million, representing 0.37% 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 \$4.2 million increase in non-performing loans and leases was primarily due to increases of \$2.1 million, \$1.7 million, and \$872 thousand in home equity

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lines, commercial mortgages, and leases, respectively, partially offset by a decrease of \$965 thousand in non-performing residential mortgage loans.

The Provision for the years ended December 31, 2018, 2017 and 2016 was \$7.2 million, \$2.6 million and \$4.3 million, respectively. The Provision recorded during any given period reflects an allocation related to net new loan volume, changes in the economic environment, and the replenishment of Allowance consumed by charge-offs of loans and leases for which the Corporation had not specifically reserved. Net loan charge-offs for the year ended December 31, 2018 totaled \$5.3 million as compared to \$2.6 million for the same period in 2017. Total portfolio loans increased by \$141.3 million during the year ended December 31, 2018 as compared to \$750.4 million for the same period in 2017. As of December 31, 2018, the Allowance of \$19.4 million represents 0.57% of portfolio loans and leases, as compared to the Allowance as of December 31, 2017 of \$17.5 million, which represented 0.53% of portfolio loans and leases as of that date.

As of December 31, 2018, the Corporation had other real estate owned (“OREO”) valued at \$417 thousand, as compared to \$304 thousand as of December 31, 2017. The increase was primarily due to \$372 thousand of additions to OREO during 2018 comprised of one residential property and one manufactured home, which resulted from loan foreclosures. Partially offsetting the additions were sales of OREO properties acquired in the December 2017 RBPI Merger, carried at \$170 thousand.

As of December 31, 2018, the Corporation had \$11.0 million of TDRs, of which \$9.7 million were in compliance with their modified terms for six months or greater, and hence, 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 their modified terms.

Impaired loans and leases are those for which it is probable that the Corporation will not be able to collect all scheduled principal and interest payments in accordance with the original terms of the loans and leases. Included in impaired loans and leases are non-accrual loans and leases and TDRs in compliance with modified terms. Purchased credit-impaired loans are not included in impaired loan and lease totals. As of December 31, 2018, the Corporation had \$22.6 million of impaired loans and leases, as compared to \$14.2 million as of December 31, 2017. For more information regarding the Corporation's impaired loans and leases, refer to Section H, “Impaired Loans,” of Note 5, “Loans and Leases,” in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

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

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Non-Performing Assets, TDRs and Related Ratios as of or for the Year Ended December 31,

(dollars in thousands)	2018	2017	2016	2015	2014	
Non-accrual loans and leases	\$ 12,820	\$ 8,579	\$ 8,363	\$ 10,244	\$ 10,096	
Loans 90 days or more past due and still accruing	—	—	—	—	—	
Total non-performing loans and leases	12,820	8,579	8,363	10,244	10,096	
Other real estate owned	417	304	1,017	2,638	1,147	
Total non-performing assets	\$ 13,237	\$ 8,883	\$ 9,380	\$ 12,882	\$ 11,243	
TDRs included in non-performing assets	\$ 1,217	\$ 3,289	\$ 2,632	\$ 1,935	\$ 4,315	
TDRs in compliance with modified terms	9,745	5,800	6,395	4,880	4,157	
Total TDRs	\$ 10,962	\$ 9,089	\$ 9,027	\$ 6,815	\$ 8,472	
Allowance for loan and lease losses to non-performing loans and leases	151.5	% 204.3	% 209.1	% 154.8	% 144.5	%
Non-performing loans and leases to total loans and leases	0.37	% 0.26	% 0.33	% 0.45	% 0.61	%
Allowance for loan losses to total portfolio loans and leases	0.57	% 0.53	% 0.69	% 0.70	% 0.88	%
Non-performing assets to total assets	0.28	% 0.20	% 0.27	% 0.43	% 0.50	%
Period-end portfolio loans and leases	\$ 3,427,154	\$ 3,285,858	\$ 2,535,425	\$ 2,268,988	\$ 1,652,257	
Average portfolio loans and leases	\$ 3,397,479	\$ 2,660,999	\$ 2,419,950	\$ 2,153,542	\$ 1,608,248	
Allowance for loan and lease losses	\$ 19,426	\$ 17,525	\$ 17,486	\$ 15,857	\$ 14,586	
Interest income that would have been recorded on impaired loans if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination	\$ 1,240	\$ 708	\$ 1,098	\$ 1,100	\$ 533	
Interest income on impaired loans included in net income for the period	\$ 774	\$ 485	\$ 551	\$ 513	\$ 341	

As of December 31, 2018, management is not aware of any loan or lease, other than those disclosed in the table above, for which it has any serious doubt as to the borrower's ability to pay in accordance with the terms of the loan.

Summary of Changes in the Allowance for Loan and Lease Losses

(dollars in thousands)	2018	2017	2016	2015	2014
Balance, January 1	\$ 17,525	\$ 17,486	\$ 15,857	\$ 14,586	\$ 15,515
Charge-offs:					
Consumer	(311)	(154)	(173)	(177)	(144)
Commercial and industrial	(1,374)	(692)	(1,298)	(1,220)	(415)
Real estate	(1,018)	(1,056)	(1,008)	(1,615)	(1,231)
Leases	(3,132)	(1,224)	(808)	(442)	(410)
Total charge-offs	(5,835)	(3,126)	(3,287)	(3,454)	(2,200)
Recoveries:					
Consumer	10	8	23	29	17
Commercial and industrial	24	25	93	35	98
Real estate	74	182	178	160	47
Construction	2	4	64	4	60
Leases	433	328	232	101	165
Total recoveries	543	547	590	329	387

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Net charge-offs	(5,292)	(2,579)	(2,697)	(3,125)	(1,813)	
Provision for loan and lease losses	7,193	2,618	4,326	4,396	884	
Balance, December 31	\$19,426	\$17,525	\$17,486	\$15,857	\$14,586	
Ratio of net charge-offs to average portfolio loans outstanding	0.16	% 0.10	% 0.17	% 0.15	% 0.11	%

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Allocation of Allowance for Loan and Lease Losses

The following table sets forth an allocation of the Allowance by portfolio segment. The specific allocations in any portfolio segment may be changed in the future to reflect then-current conditions. Accordingly, management considers the entire Allowance to be available to absorb losses in any portfolio segment.

(dollars in thousands)	December 31, 2018		2017		2016		2015		2014		
	%		%		%		%		%		
	Loans	Loans	Loans	Loans	Loans	Loans	Loans	Loans	Loans	Loans	
Allowance at end of period applicable to:											
Commercial mortgage	\$7,567	48.3 %	\$7,550	46.4 %	\$6,227	43.8 %	\$5,199	42.5 %	\$3,948	41.8 %	
Home equity lines and loans	1,003	6.1 %	1,086	6.6 %	1,255	8.2 %	1,307	9.2 %	1,917	11.0 %	
Residential mortgage	1,813	14.4 %	1,926	14.0 %	1,917	16.3 %	1,740	17.9 %	1,736	19.0 %	
Construction	1,485	5.3 %	937	6.5 %	2,233	5.6 %	1,324	4.0 %	1,367	4.0 %	
Commercial and industrial	5,461	20.3 %	5,038	21.9 %	5,142	22.9 %	5,609	23.1 %	4,533	20.3 %	
Consumer	229	1.4 %	246	1.1 %	153	1.0 %	142	1.0 %	238	1.1 %	
Leases	1,868	4.2 %	742	3.5 %	559	2.2 %	518	2.3 %	468	2.8 %	
Unallocated	—	— %	—	— %	—	— %	18	— %	379	— %	
Total	\$19,426	100.0 %	\$17,525	100.0 %	\$17,486	100.0 %	\$15,857	100.0 %	\$14,586	100.0 %	

Noninterest Income

2018 Compared to 2017

Noninterest income of \$76.0 million for the year ended December 31, 2018 increased \$16.9 million, or 28.5%, as compared to \$59.1 million for the year ended December 31, 2017. The increase was primarily due to increases of \$6.2 million, \$3.6 million, \$2.5 million, and \$2.2 million in other operating income, fees for wealth management services, capital markets revenue, and insurance commissions, respectively. The increase in other operating income, which is further detailed in the table below, was primarily due to the \$4.0 million increase in recoveries of purchase accounting fair value marks resulting from the pay off of purchased credit impaired loans acquired in the RBPI Merger. The increase in fees for wealth management services was primarily related to the \$460.8 million increase in wealth assets under management, administration, supervision and brokerage from \$12.97 billion at December 31, 2017 to \$13.43 billion at December 31, 2018. The increase in capital markets revenue was primarily related to a full year of operations for our capital markets group, which was formed during the second quarter of 2017, as well as organic growth. The increase in insurance commissions was partially due to the May 2017 Hirshorn acquisition and the May 2018 Domenick acquisition.

Components of other operating income for the indicated years ended December 31 include:

(dollars in thousands)	2018	2017	2016
Visa debit card income	\$1,700	\$1,443	\$1,381
Bank owned life insurance income	1,177	959	908
Commissions and fees	1,270	621	673

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Safe deposit box rentals	386	365	382
Other investment income	337	48	223
Rent income	150	193	163
(Loss) gain on trading investments	(153) 613	112
Recovery of purchase accounting fair value loan mark	4,338	337	452
Miscellaneous other income	2,341	742	574
Other operating income	\$11,546	\$5,321	\$4,868

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2017 Compared to 2016

Noninterest income of \$59.1 million for the year ended December 31, 2017 increased \$5.2 million, or 9.6%, as compared to \$54.0 million for the year ended December 31, 2016. The increase was primarily due to increases of \$2.4 million, \$2.1 million, \$876 thousand, and \$453 thousand in capital markets revenue, fees for wealth management services, insurance commissions, and other operating income, respectively. The increase in capital markets revenue was due to the establishment of our capital markets initiative, which was launched in the second quarter of 2017. The increase in fees for wealth management services was primarily related to the \$1.64 million increase in wealth assets under management, administration, supervision and brokerage from \$11.33 billion at December 31, 2016 to \$12.97 billion at December 31, 2017. The increase in insurance commissions was primarily due to the May 2017 acquisition of Hirshorn. The increase in other operating income, which is further detailed in the table above, was primarily due to a \$501 thousand increase in gain on trading investments. The Corporation's trading investments are comprised solely of investments held in deferred compensation plan trusts whose investment decisions are at the sole discretion of the plan participants. Partially offsetting these increases was a \$607 thousand decrease in net gain on sale of loans as mortgage refinancing activity slowed during 2017 with increasing interest rates.

Noninterest Expense

2018 Compared to 2017

Noninterest expense of \$140.3 million for the year ended December 31, 2018 increased \$25.9 million, or 22.6%, as compared to \$114.4 million for the year ended December 31, 2017. The increase was primarily due to increases of \$13.4 million and \$2.7 million in salaries and wages and employee benefits, respectively. A majority of these increases were related to the additional expenses associated with the staff assumed in the RBPI Merger, and to a lesser extent, recruiting efforts of certain key leadership positions and increases in our incentive accruals. The remaining increase in noninterest expense consisted of increases of \$1.7 million, \$1.7 million, \$1.4 million, \$1.3 million, and \$1.0 million in occupancy and bank premises expenses, due diligence, merger-related and merger integration expenses, information technology expenses, other operating expenses, and furniture, fixtures and equipment expenses, respectively. These increases were also primarily due to the additional expenses associated with the facilities assumed in the RBPI Merger. While much of the merger-related expenses associated with the RBPI Merger were recorded at the time of the merger, certain expenses incurred in connection with the banking system conversion, contract terminations and lease terminations are recorded as they are incurred.

Components of other operating expense for the indicated years ended December 31 include:

(dollars in thousands)	2018	2017	2016
Contributions	\$1,659	\$1,511	\$957
Deferred compensation expense	(492)	783	664
Director fees	544	542	566
Dues and subscriptions	1,150	871	456
FDIC insurance	1,716	1,580	1,616
Impairment of OREO and other repossessed assets	89	208	94
Insurance	851	838	788
Loan processing	1,068	423	323
Miscellaneous other expense	3,765	2,545	1,480
MSR amortization and impairment	830	745	881
Other taxes	60	39	45
Outsourced services	243	315	569

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Portfolio maintenance	435	417	391
Postage	763	575	551
Stationary and supplies	536	488	518
Telephone and data lines	1,909	1,616	1,620
Temporary help and recruiting	416	852	1,522
Travel and entertainment	1,093	900	894
Other operating expense	\$16,635	\$15,248	\$13,935

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2017 Compared to 2016

Noninterest expense of \$114.4 million for the year ended December 31, 2017 increased \$12.7 million, or 12.5%, as compared to \$101.7 million for the year ended December 31, 2016. The increase was primarily due to a \$6.1 million increase in due diligence and merger-related and merger integration expenses related to the RBPI Merger, and a \$5.8 million increase in salary and wages due to staffing increases from our capital markets initiative, the Hirshorn Boothby acquisition and the Princeton wealth management office, annual salary and wage increases, increases in incentive compensation and to a smaller extent, the additional staff added in the RBPI Merger.

Secondary Market Sold-Loan Repurchase Demands

In the course of originating residential mortgage loans and selling those loans in the secondary market, the Corporation makes various representations and warranties to the purchasers of the mortgage loans. Each residential mortgage loan originated by the Corporation is evaluated by an automated underwriting application, which verifies the underwriting criteria and certifies the loan's eligibility for sale to the secondary market. Any exceptions discovered during this process are remedied prior to sale. These representations and warranties also apply to underwriting the real estate appraisal opinion of value for the collateral securing these loans. Under the representations and warranties, failure by the Corporation to comply with the underwriting and appraisal standards could result in the Corporation's being required to repurchase the mortgage loan or to reimburse the investor for losses incurred (make whole requests) if such failure cannot be cured by the Corporation within the specified period following discovery. As of December 31, 2018, there were no pending or unsettled loan repurchase demands.

Income Tax Expense

Income tax expense of \$14.2 million for the year ended December 31, 2018 decreased \$20.1 million as compared to \$34.2 million for the year ended December 31, 2017. The effective tax rates for the years ended December 31, 2018 and 2017 were 18.2% and 59.8%, respectively. The decrease was directly related to the Tax Reform enacted on December 22, 2017, which lowered the top federal corporate rate from 35% to 21%. Also contributing to the decrease in income tax expense was the absence of the \$15.2 million one-time income tax charge related to the re-measurement of the Corporation's net deferred tax asset, triggered by Tax Reform, during the year ended December 31, 2017, and a \$2.6 million income tax benefit recorded during the year ended December 31, 2018 for certain discrete items included on our 2017 tax return that was filed during the fourth quarter of 2018.

Income tax expense of \$34.2 million for the year ended December 31, 2017 increased \$16.1 million as compared to \$18.2 million for the year ended December 31, 2016. The effective tax rates for the years ended December 31, 2017 and 2016 were 59.8% and 33.5%, respectively. The increase was primarily due to the \$15.2 million one-time charge to income tax expense, triggered by Tax Reform, during the year ended December 31, 2017.

For more information related to income taxes, refer to Note 16, "Income Taxes," in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

Balance Sheet Analysis

Asset Changes

Total assets of \$4.65 billion as of December 31, 2018 increased \$202.8 million, or 4.6%, from \$4.45 billion as of December 31, 2017. The increase is primarily due to the increases in portfolio loans and leases and available for sale

investment securities discussed in the following sections.

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Investment Securities

The following table details the maturity and weighted average yield⁽¹⁾ of the available for sale investment portfolio as of December 31, 2018:

(dollars in thousands)	Maturing During 2018	Maturing From 2019 Through 2022	Maturing From 2023 Through 2027	Maturing After 2027	Total
U.S. Treasury securities:					
Amortized cost	\$199,926	\$100	\$—	\$—	\$200,026
Weighted average yield	2.28	% 2.63	% —	% —	% 2.28
Obligations of the U.S. government and agencies:					
Amortized cost	3,263	174,697	6,588	14,056	198,604
Weighted average yield	2.00	% 2.31	% 3.48	% 2.75	% 2.38
State and political subdivisions ⁽¹⁾ :					
Amortized cost	5,491	5,211	670	—	11,372
Weighted average yield	0.52	% 0.52	% 0.57	% —	% 0.52
Mortgage-related securities ⁽²⁾ :					
Amortized cost	12	17,414	60,589	256,211	334,226
Weighted average yield	0.25	% 0.37	% 0.39	% 0.37	% 0.37
Other investment securities:					
Amortized cost	450	650	—	—	1,100
Weighted average yield	1.99	% 3.46	% —	% —	% 2.86
Total amortized cost	\$209,142	\$198,072	\$67,847	\$270,267	\$745,328
Weighted average yield	2.27	% 2.34	% 2.65	% 2.71	% 2.48

(1) Weighted average yields on tax-exempt obligations have not been computed on a tax-equivalent basis.

Mortgage-related securities are included in the above table based on their contractual maturity. However,

(2) mortgage-related securities, by design, have scheduled monthly principal payments which are not reflected in this table.

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

(dollars in thousands)	Amortized Cost as of December 31,				
	2018	2017	2016	2015	2014
U.S. Treasury securities	\$200,026	\$200,077	\$200,094	\$101	\$102
Obligations of the U.S. government and agencies	198,604	153,028	83,111	101,342	66,881
Obligations of state and political subdivisions	11,372	21,352	33,625	41,892	28,955
Mortgage-backed securities	294,076	275,958	185,997	157,422	79,498
Collateralized mortgage obligations	40,150	37,596	49,488	29,756	34,618
Other investment securities	1,100	4,813	16,575	17,263	17,499
Total amortized cost	\$745,328	\$692,824	\$568,890	\$347,776	\$227,553

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Portfolio Loans and Leases

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

	December 31,				
(dollars in thousands)	2018	2017	2016	2015	2014
Commercial mortgage	\$1,657,436	\$1,523,377	\$1,110,898	\$964,259	\$689,528
Home equity lines & loans	207,351	218,275	207,999	209,473	182,082
Residential mortgage	494,355	458,886	413,540	406,404	313,442
Construction	181,078	212,454	141,964	90,421	66,267
Commercial & industrial	695,584	719,312	579,791	524,515	335,645
Consumer	46,814	38,153	25,341	22,129	18,480
Leases	144,536	115,401	55,892	51,787	46,813
Total portfolio loans and leases	3,427,154	3,285,858	2,535,425	2,268,988	1,652,257
Loans held for sale	1,749	3,794	9,621	8,987	3,882
Total loans and leases	\$3,428,903	\$3,289,652	\$2,545,046	\$2,277,975	\$1,656,139

The following table summarizes the loan maturity distribution and interest rate sensitivity as of December 31, 2018. Excluded from the table are residential mortgage, home equity lines and loans, and consumer loans:

	Maturing			
(dollars in thousands)	Maturing During 2019	From 2020 Through 2023	Maturing After 2023	Total
Loan portfolio maturity:				
Commercial and industrial	\$270,993	\$224,197	\$200,394	\$695,584
Construction	95,346	43,025	42,707	181,078
Commercial mortgage	97,434	618,603	941,399	1,657,436
Leases	8,766	133,635	2,135	144,536
Total	\$472,539	\$1,019,460	\$1,186,635	\$2,678,634
Interest sensitivity on the above loans:				
Loans with fixed rates	\$116,504	\$764,745	\$284,904	\$1,166,153
Loans with adjustable or floating rates	356,035	254,715	901,731	1,512,481
Total	\$472,539	\$1,019,460	\$1,186,635	\$2,678,634

The list below identifies certain key characteristics of the Corporation's loan and lease portfolio. Refer to Note 5, "Loans and Leases," in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K and the section of this MD&A under the heading "Portfolio Loans and Leases" for further details.

Portfolio Loans and Leases - The Corporation's \$3.43 billion loan and lease portfolio is predominantly based in the Corporation's traditional market areas of Southeastern Pennsylvania, Southern and Central New Jersey, and Delaware. These markets have exhibited relatively stable economic attributes, and have generally not seen the high levels of real estate price volatility experienced in other regions nationwide.

Concentrations - The Corporation has a significant portion of its portfolio loans (excluding leases) in real estate-related loans. As of December 31, 2018 and December 31, 2017, respectively, loans secured by real estate were \$2.54 billion and \$2.41 billion, or 74.1% and 73.4%, of the total loan portfolio of \$3.43 billion and \$3.29 billion. A predominant percentage of the Corporation's real estate exposure, both commercial and residential, is within Pennsylvania, Delaware and Southern and Central New Jersey. Management is aware of this concentration and mitigates this risk to the extent possible in many ways, including maintaining a diverse group of collateral property

types within the portfolio, and by exercising underwriting discipline which includes assessment of the borrower's capacity to repay, equity in the underlying real estate collateral and a review of a borrower's global cash flows. For a substantial portion of the loans in the real estate portfolio, the Corporation has recourse to the owners/sponsors, primarily through personal guaranties, in addition to liens on collateral. This recourse provides credit strength, as it incorporates the borrowers' global cash flows.

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In addition to loans secured by real estate, commercial and industrial loans comprise 20.3% of the total loan portfolio as of December 31, 2018.

Construction - The construction portfolio of \$181.1 million accounts for 5.3% of the total loan and lease portfolio at December 31, 2018, a decrease of \$31.4 million from December 31, 2017. The construction loan segment of the portfolio, which consists of residential site development loans, commercial construction loans, and loans for construction of individual homes, had no delinquent or nonperforming loans as of both December 31, 2018 and 2017. **Residential Mortgages** - Residential mortgage loans were \$494.4 million as of December 31, 2018, an increase of \$35.5 million from December 31, 2017. The residential mortgage segment accounts for 14.4% of the total loan and lease portfolio as of December 31, 2018. The residential mortgage segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2018, of 0.52%, as compared to 0.32% as of December 31, 2017.

Nonperforming residential mortgage loans comprised 0.70% of the residential mortgage segment of the portfolio as of December 31, 2018, as compared to 0.96% as of December 31, 2017. Management believes it is well protected with its collateral position on this portfolio.

Commercial Mortgages - Commercial mortgages were \$1.66 billion as of December 31, 2018, an increase of \$134.1 million from December 31, 2017. Management has made a concerted effort, over several operating cycles, to attract strong commercial real estate entrepreneurs in its primary trade area. The commercial mortgage segment accounts for 48.4% of the total loan and lease portfolio as of December 31, 2018. The commercial mortgage segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2018, of 0.06%, as compared to 0.25% as of December 31, 2017. Nonperforming commercial mortgage loans comprised 0.15% of the commercial mortgage segment of the portfolio as of December 31, 2018, as compared to 0.06% as of December 31, 2017. The borrowers comprising this segment of the portfolio generally have strong, global cash flows, which are regularly assessed and have remained stable.

Commercial and Industrial - Commercial and industrial loans were \$695.6 million as of December 31, 2018, a decrease of \$23.7 million from December 31, 2017. The commercial and industrial segment accounts for 20.3% of the total loan and lease portfolio as of December 31, 2018. The commercial and industrial segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2018, of 0.09%, as compared to 0.13% as of December 31, 2017. Nonperforming commercial and industrial loans comprised 0.30% of the commercial and industrial segment of the portfolio as of December 31, 2018, as compared to 0.24% as of December 31, 2017. The commercial and industrial segment of the portfolio consists primarily of loans to privately held businesses and non-profit institutions headquartered within the Corporation's traditional market area. While some of these loans are collateralized by real estate, others are collateralized by non-real estate business assets, including accounts receivable, inventory and equipment.

Home Equity Loans and Lines of Credit - Home equity loans and lines of credit were \$207.4 million as of December 31, 2018, a decrease of \$10.9 million from December 31, 2017. The home equity loans and lines of credit segment accounts for 6.1% of the total loan and lease portfolio as of December 31, 2018. The home equity loans and lines of credit segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2018, of 0.05%, as compared to 0.16% as of December 31, 2017. Nonperforming home equity loans and lines of credit comprised 1.74% of the home equity loans and lines of credit segment of the portfolio as of December 31, 2018, as compared to 0.68% as of December 31, 2017. The Bank originates the majority of its home equity loans and lines of credit through its retail channel.

Consumer loans - Consumer loans were \$46.8 million as of December 31, 2018, an increase of \$8.7 million from December 31, 2017. The consumer loan segment accounted for 1.4% of the total loan and lease portfolio as of December 31, 2018. The consumer loan segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2018, of 0.09%, as compared to 2.90% as of December 31, 2017. Nonperforming consumer loans comprised 0.23% of the consumer loan segment of the portfolio as of December 31, 2018, as compared to no nonperforming consumer loans as of December 31, 2017. Consumer loans consist primarily of small-balance revolving or installment loans originated through the Bank's retail channel.

Leasing - Leases totaled \$144.5 million as of December 31, 2018, an increase of \$29.1 million from December 31, 2017. The lease segment of the portfolio accounted for 4.2% of the total loan and lease portfolio as of December 31, 2018. The lease segment of the portfolio had a delinquency rate on performing leases, as of December 31, 2018, of 0.77%, as compared to 0.26% as of December 31, 2017. Nonperforming leases comprised 0.67% of the leasing segment of the portfolio as of December 31, 2018, as compared to 0.09% as of December 31, 2017.

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Goodwill and Intangible Assets

Goodwill of \$184.0 million as of December 31, 2018 increased \$4.1 million, or 2.3%, from \$179.9 million as of December 31, 2017. The increase was due to \$3.4 million of measurement period adjustments in connection with the RBPI Merger recorded during the year ended December 31, 2018, coupled with \$677 thousand of goodwill recorded from the acquisition of Domenick.

Intangible assets, other than mortgage servicing rights ("MSRs"), of \$23.5 million as of December 31, 2018 decreased \$2.5 million, or 9.7%, from \$26.0 million as of December 31, 2017. The decrease was due to \$3.7 million of amortization, partially offset by the addition of \$779 thousand of intangible assets from the acquisition of Domenick.

For more information regarding goodwill and intangible assets, see Note 1, "Summary of Significant Accounting Policies," Note 3, "Business Combinations," and Note 8, "Goodwill and Intangible Assets," respectively, in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

FHLB Stock

The Corporation's investment in stock issued by the FHLB was \$14.5 million as of December 31, 2018, a decrease of \$5.6 million, or 27.7%, from \$20.1 million as of December 31, 2017. The Corporation must purchase, or the FHLB must redeem, its stock based on the Corporation's borrowings balance with the FHLB.

Mortgage Servicing Rights

MSRs of \$5.0 million as of December 31, 2018 decreased \$814 thousand, or 14%, from \$5.9 million as of December 31, 2017. The decrease was primarily due to amortization of \$803 thousand for the year ended December 31, 2018. Mortgage loans sold with servicing retained was \$1.9 million for the year ended December 31, 2018, a decrease of \$101.5 million, or 98.2%, from the \$103.4 million of mortgage loans sold with servicing retained for the year ended December 31, 2017.

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

	For the Year Ended or as of December 31,			
(dollars in thousands)	2018	2017	2016	
Mortgage originations	\$162,854	\$190,007	\$280,059	
Mortgage loans sold:				
Servicing retained	\$1,850	\$103,439	\$138,134	
Servicing released	86,518	27,871	22,829	
Total mortgage loans sold	\$88,368	\$131,310	\$160,963	
Percentage of originated mortgage loans sold	54.3	% 69.1	% 57.5	%
Servicing retained %	2.1	% 78.8	% 85.8	%
Servicing released %	97.9	% 21.2	% 14.2	%
Residential mortgage loans serviced for others	\$578,788	\$650,703	\$631,889	
Mortgage servicing rights	\$5,047	\$5,861	\$5,582	
Gain on sale of mortgage loans	\$2,477	\$2,038	\$2,693	
Loan servicing and other fees	\$2,259	\$1,939	\$1,939	
Amortization of MSRs	\$803	\$791	\$750	
(Impairment) / Recovery of MSRs	\$(27)	\$45	\$(131)	

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Liability Changes

Total liabilities of \$4.09 billion as of December 31, 2018 increased \$166.2 million, or 4.2%, from \$3.92 billion as of December 31, 2017. The increase is primarily due to the increase in total deposits offset by the decrease in total borrowings discussed in the following sections.

Deposits

Deposits of \$3.60 billion as of December 31, 2018 increased \$225.3 million, or 6.7%, from \$3.37 billion as of December 31, 2017. Increases of \$183.4 million, \$153.3 million, and \$10.5 million in interest-bearing demand accounts, wholesale time deposits, and retail time deposits, respectively, were partially offset by decreases of \$91.5 million, \$23.2 million, and \$7.2 million in savings accounts, noninterest-bearing demand accounts, and wholesale non-maturity deposits, respectively.

The following table details deposits as of the dates indicated:

(dollars in thousands)	As of December 31,				
	2018	2017	2016	2015	2014
Interest-bearing demand	\$664,749	\$481,336	\$379,424	\$338,861	\$277,228
Money market	862,644	862,639	761,657	749,726	566,354
Savings	247,081	338,572	232,193	187,299	138,992
Retail time deposits	542,702	532,202	322,912	229,253	118,400
Wholesale non-maturity deposits	55,031	62,276	74,272	67,717	66,693
Wholesale time deposits	325,261	171,929	73,037	53,185	73,458
Total interest-bearing deposits	\$2,697,468	\$2,448,954	\$1,843,495	\$1,626,041	\$1,241,125
Noninterest-bearing deposits	901,619	924,844	736,180	626,684	446,903
Total deposits	\$3,599,087	\$3,373,798	\$2,579,675	\$2,252,725	\$1,688,028

The following table summarizes the maturities of certificates of deposit of \$100,000 or greater as of December 31, 2018:

(dollars in thousands)	Retail	Wholesale
Three months or less	\$42,121	\$182,382
Three to six months	40,431	102,225
Six to twelve months	125,904	37,515
Greater than twelve months	57,828	—
Total	\$266,284	\$322,122

For more information regarding deposits, including average amount of deposits and average rate paid, refer to the sections of this MD&A under the headings “Balance Sheet Analysis” and “Analysis of Interest Rates and Interest Differential.”

Borrowings

Borrowings of \$427.8 million as of December 31, 2018, which include short-term borrowings, long-term FHLB advances, subordinated notes and junior subordinated debentures, decreased \$69.0 million, or 13.9%, from \$496.8 million as of December 31, 2017. The decrease was comprised of a \$83.8 million decrease in long-term FHLB advances, partially offset by a \$14.5 million increase in short-term borrowings (original maturity of one year or less), which consisted of funds obtained from overnight repurchase agreements with commercial customers and short-term FHLB advances.

The following table details borrowings as of the dates indicated:

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	As of December 31,				
(dollars in thousands)	2018	2017	2016	2015	2014
Short-term borrowings	\$252,367	\$237,865	\$204,151	\$94,167	\$23,824
Long-term FHLB advances	55,374	139,140	189,742	254,863	260,146
Subordinated notes	98,526	98,416	29,532	29,479	—
Jr. subordinated debentures	21,580	21,416	—	—	—
Total borrowings	\$427,847	\$496,837	\$423,425	\$378,509	\$283,970

See the Liquidity Section of this MD&A under the heading “Liquidity” for further details on the Corporation’s FHLB available borrowing capacity.

Discussion of Segments

The Corporation has two operating segments: Wealth Management and Banking. These segments are discussed below. Detailed segment information appears in Note 30, “Segment Information,” in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

Wealth Management Segment Activity

The Wealth Management segment, which includes the insurance reporting unit, reported a pre-tax segment profit (“PTSP”) for the year ended December 31, 2018 of \$16.5 million, an increase of \$1.4 million, or 9.7%, as compared to \$15.1 million for the year ended December 31, 2017. Fees for wealth management services of \$42.3 million for the year ended December 31, 2018 increased \$3.6 million, or 9.3%, as compared to \$38.7 million for the year ended December 31, 2017. The increase in fees was comprised of a \$2.1 million increase from accounts whose fees are charged on a flat or fixed basis, primarily due to a \$581.3 million increase in fixed rate flat-fee account balances, and a \$1.4 million increase in fees derived from market-value based fee accounts, primarily due to strong market performance experienced during 2018. Revenue from the insurance division of \$6.8 million for the year ended December 31, 2018, which is reported as part of the Wealth Management segment, increased by \$2.2 million, or 48.4%, partially due to the May 2017 Hirshorn acquisition and the May 2018 Domenick acquisition, in addition to organic growth.

The PTSP of the Wealth Management segment for the year ended December 31, 2017 was \$15.1 million, an increase of \$702 thousand, or 4.9%, as compared to \$14.4 million for the year ended December 31, 2016. Fees for wealth management services of \$38.7 million for the year ended December 31, 2017 increased \$2.0 million, or 5.6%, as compared to \$36.7 million for the year ended December 31, 2016. The increase in fees, year over year, is related to the \$1.64 billion increase in assets under management, administration, supervision and brokerage. Approximately two-thirds of the growth of the wealth asset portfolio was from accounts whose fees are charged on a flat or fixed basis. However, nearly two-thirds of the increase in wealth management fees was derived from market-value based fee accounts, as a result of the strong market performance experienced in 2017. Revenue from the insurance division, which is reported as part of the Wealth Management segment, increased by \$867 thousand, or 23.3%, primarily due to the May 2017 acquisition of Hirshorn, in addition to organic growth.

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” 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.

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

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(dollars in thousands) Wealth Assets as of:

	December 31, 2018	December 31, 2017	December 31, 2016
Fee Basis	31,	31,	31,
Market value	\$5,764,189	\$5,884,692	\$5,302,463
Fixed fee	7,665,355	7,084,046	6,025,994
Total	\$13,429,544	\$12,968,738	\$11,328,457

Percentage of Wealth Assets
as of:

	December 31, 2018	December 31, 2017	December 31, 2016
Fee Basis	42.9 %	45.4 %	46.8 %
Market value	57.1 %	54.6 %	53.2 %
Fixed fee	100.0 %	100.0 %	100.0 %
Total			

The following tables detail the composition of fees for wealth management services for the periods indicated:
(dollars in thousands) For the Year Ended:

	December 31, 2018	December 31, 2017	December 31, 2016
Fee Basis	31,	31,	31,
Market value	\$31,142	\$29,752	\$28,418
Fixed fee	11,184	8,983	8,272
Total	\$42,326	\$38,735	\$36,690

Percentage of Fees for Wealth
Management Services

For the Year Ended:

	December 31, 2018	December 31, 2017	December 31, 2016
Fee Basis	73.6 %	76.8 %	77.5 %
Market value	26.4 %	23.2 %	22.5 %
Fixed fee	100.0 %	100.0 %	100.0 %
Total			

Banking Segment Activity

Banking segment data as presented in Note 30, "Segment Information," in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K indicates a PTSP of \$61.4 million in 2018, \$42.2 million in 2017 and \$39.8 million in 2016. See the section of this MD&A under the heading "Components of Net Income" for a discussion of the Banking Segment results.

Capital and Regulatory Capital Ratios

Consolidated shareholders' equity of the Corporation was \$564.7 million, or 12.1% of total assets, as of December 31, 2018, as compared to \$528.1 million, or 11.9% of total assets, as of December 31, 2017.

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.

In addition, the Corporation has in place under its Shelf Registration Statement 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

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a request for waiver (“RFW”) above the Plan’s maximum investment of \$120 thousand per account per year. An RFW is granted based on a variety of factors, including the Corporation’s current and projected capital needs, prevailing market prices of the Corporation’s common stock and general economic and market conditions.

For the year ended December 31, 2018, the Corporation did not issue any shares through the Plan, nor were any RFWs approved. The Plan administrator conducted dividend reinvestments for Plan participants through open market purchases. No other sales of equity securities were executed under the Shelf Registration Statement during the year ended December 31, 2018.

Accumulated other comprehensive loss (“AOCL”) of \$7.5 million as of December 31, 2018 increased \$3.1 million, or 70%, from \$4.4 million as of December 31, 2017. The primary cause of the increase in AOCL was the increase in net unrealized losses on available for sale investment securities primarily due to increasing interest rates.

As detailed in Section E, “Regulatory Capital Ratios,” of Note 27, “Regulatory Capital Requirements,” in the accompanying Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K, the capital ratios, as of December 31, 2018 and 2017 indicate levels above the regulatory minimum to be considered “well capitalized.”

Liquidity

The Corporation has significant sources of liquidity as of December 31, 2018. The liquidity position is managed on a daily basis as part of the daily settlement function, and on a monthly basis as part of the asset liability management process. The Corporation’s primary liquidity is maintained by managing its deposits, along with the utilization of borrowings from the FHLB, purchased federal funds, and utilization of other wholesale funding sources. Secondary sources of liquidity include the sale of certain investment securities and certain loans in the secondary market.

Other wholesale funding sources include certificates of deposit from brokers, generally available in blocks of \$1.0 million or more. Funds obtained through these programs totaled \$325.3 million as of December 31, 2018.

As of December 31, 2018, the maximum borrowing capacity with the FHLB was \$1.53 billion, with an unused borrowing availability of \$1.25 billion. Borrowing availability at the Federal Reserve Discount Window was \$140.4 million, and overnight Fed Funds lines, consisting of lines from seven banks, totaled \$79.0 million. On a monthly basis, the ALCO reviews the Corporation’s liquidity needs. This information is reported to the Risk Management Committee of the Board of Directors on a quarterly basis.

As of December 31, 2018, the Corporation held \$14.5 million of FHLB stock as required by the borrowing agreement between the FHLB and the Corporation.

The Corporation has an agreement with IND to provide up to \$70 million, plus interest, of money market and NOW funds at an agreed upon interest rate equal to the current Fed Funds rate plus 20 basis points. The Corporation had \$55.0 million in balances as of December 31, 2018 under this program.

The Corporation’s available for sale investment portfolio of \$737.4 million as of December 31, 2018 was 15.9% of total assets. Some of these investments were in short-term, high-quality, liquid investments to earn more than the 25 basis points currently earned on Fed Funds. The Corporation’s policy is to maintain its investment portfolio at a minimum level of 10% of total assets. The portion of the investment portfolio that is not already pledged against borrowings from the FHLB or other funding sources, provides the Corporation with the ability to utilize the securities to borrow additional funds through the FHLB, Federal Reserve or other repurchase agreements.

Management continually evaluates its borrowing capacity and sources of liquidity. Management currently believes that it has sufficient capacity to fund expected short- and long-term earning asset growth with wholesale sources, along with deposit growth from its internal branch and wealth products.

Off Balance Sheet Risk

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

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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.

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

The following chart presents the off-balance sheet commitments of the Corporation as of December 31, 2018, listed by dates of funding or payment:

(dollars in millions)	Total	Within 1 Year	2 - 3 Years	4 - 5 Years	After 5 Years
Unfunded loan commitments	\$867.2	\$433.7	\$138.6	\$45.0	\$249.9
Standby letters of credit	21.2	17.1	4.1	—	—
Total	\$888.4	\$450.8	\$142.7	\$45.0	\$249.9

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

Contractual Cash Obligations of the Corporation as of December 31, 2018

(dollars in thousands)	Total	Within 1 Year	2 - 3 Years	4 - 5 Years	After 5 Years
Deposits without a stated maturity	\$2,731,124	\$2,731,124	\$—	\$—	\$—
Wholesale and retail certificates of deposit	867,963	739,766	115,409	11,901	887
Short-term borrowings	252,367	252,367	—	—	—
Long-term FHLB Advances	55,374	28,105	27,269	—	—
Subordinated Notes	100,000	—	—	—	100,000
Junior subordinated debentures	25,774	—	—	—	25,774
Operating leases	64,488	5,211	9,178	8,254	41,845
Purchase obligations	9,066	6,736	2,330	—	—
Total	\$4,106,156	\$3,763,309	\$154,186	\$20,155	\$168,506

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.

Effect of Government Monetary Policies

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

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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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following audited Consolidated Financial Statements and related documents are set forth in this Annual Report on Form 10-K on the following pages:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>60</u>
<u>Consolidated Balance Sheets</u>	<u>62</u>
<u>Consolidated Statements of Income</u>	<u>63</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>64</u>
<u>Consolidated Statements of Cash Flows</u>	<u>65</u>
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	<u>67</u>
<u>Notes to Consolidated Financial Statements</u>	<u>69</u>

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors
Bryn Mawr Bank Corporation:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Bryn Mawr Bank Corporation and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018 based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(signed) KPMG LLP

We have served as the Company's auditor since 2004.

Philadelphia, Pennsylvania

March 1, 2019

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Consolidated Balance Sheets

(dollars in thousands)	December 31, 2018	December 31, 2017
Assets		
Cash and due from banks	\$ 14,099	\$ 11,657
Interest bearing deposits with banks	34,357	48,367
Cash and cash equivalents	48,456	60,024
Investment securities available for sale, at fair value (amortized cost of \$745,328 and \$692,824 as of December 31, 2018 and December 31, 2017, respectively)	737,442	689,202
Investment securities held to maturity, at amortized cost (fair value of \$8,438 and \$7,851 as of December 31, 2018 and December 31, 2017, respectively)	8,684	7,932
Investment securities, trading	7,502	4,610
Loans held for sale	1,749	3,794
Portfolio loans and leases, originated	2,885,251	2,487,296
Portfolio loans and leases, acquired	541,903	798,562
Total portfolio loans and leases	3,427,154	3,285,858
Less: Allowance for originated loan and lease losses	(19,329)	(17,475)
Less: Allowance for acquired loan and lease losses	(97)	(50)
Total allowance for loans and lease losses	(19,426)	(17,525)
Net portfolio loans and leases	3,407,728	3,268,333
Premises and equipment, net	65,648	54,458
Accrued interest receivable	12,585	14,246
Mortgage servicing rights	5,047	5,861
Bank owned life insurance	57,844	56,667
Federal Home Loan Bank stock	14,530	20,083
Goodwill	184,012	179,889
Intangible assets	23,455	25,966
Other investments	16,526	12,470
Other assets	61,277	46,185
Total assets	\$ 4,652,485	\$ 4,449,720
Liabilities		
Deposits:		
Noninterest-bearing	\$ 901,619	\$ 924,844
Interest-bearing	2,697,468	2,448,954
Total deposits	3,599,087	3,373,798
Short-term borrowings	252,367	237,865
Long-term FHLB advances	55,374	139,140
Subordinated notes	98,526	98,416
Junior subordinated debentures	21,580	21,416
Accrued interest payable	6,652	3,527
Other liabilities	54,195	47,439
Total liabilities	4,087,781	3,921,601
Shareholders' equity		
Common stock, par value \$1; authorized 100,000,000 shares; issued 24,545,348 and 24,360,049 shares as of December 31, 2018 and December 31, 2017, respectively, and outstanding of 20,163,816 and 20,161,395 as of December 31, 2018 and December 31, 2017, respectively	24,545	24,360

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Paid-in capital in excess of par value	374,010	371,486
Less: Common stock in treasury at cost - 4,381,532 and 4,198,654 shares as of December 31, 2018 and December 31, 2017, respectively	(75,883)	(68,179)
Accumulated other comprehensive loss, net of tax	(7,513)	(4,414)
Retained earnings	250,230	205,549
Total Bryn Mawr Bank Corporation shareholders' equity	565,389	528,802
Noncontrolling interest	(685)	(683)
Total shareholders' equity	564,704	528,119
Total liabilities and shareholders' equity	\$ 4,652,485	\$ 4,449,720

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

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Consolidated Statements of Income

	Year Ended December 31,		
	2018	2017	2016
(dollars in thousands, except per share data)			
Interest income:			
Interest and fees on loans and leases	\$ 168,638	\$ 120,762	\$ 110,536
Interest on cash and cash equivalents	264	174	168
Interest on investment securities:			
Taxable	11,854	8,136	5,575
Non-taxable	293	388	497
Dividends	6	99	215
Total interest income	181,055	129,559	116,991
Interest expense:			
Interest on deposits	20,552	8,748	5,833
Interest on short-term borrowings	3,392	1,390	93
Interest on FHLB advances and other borrowings	1,777	2,620	3,353
Interest on subordinated notes	4,575	1,628	1,476
Interest on junior subordinated debentures	1,288	46	—
Total interest expense	31,584	14,432	10,755
Net interest income	149,471	115,127	106,236
Provision for loan and lease losses	7,193	2,618	4,326
Net interest income after provision for loan and lease losses	142,278	112,509	101,910
Noninterest income:			
Fees for wealth management services	42,326	38,735	36,690
Insurance commissions	6,808	4,589	3,722
Capital markets revenue	4,848	2,396	—
Service charges on deposits	2,989	2,608	2,791
Loan servicing and other fees	2,259	2,106	1,939
Net gain on sale of loans	3,283	2,441	3,048
Net gain (loss) on sale of investment securities available for sale	7	101	(77)
Net gain (loss) on sale of other real estate owned ("OREO")	295	(104)	(76)
Dividends on FHLB and FRB stock	1,621	939	1,063
Other operating income	11,546	5,321	4,868
Total noninterest income	75,982	59,132	53,968
Noninterest expenses:			
Salaries and wages	66,671	53,251	47,411
Employee benefits	12,918	10,170	9,249
Occupancy and bank premises	11,599	9,906	9,611
Furniture, fixtures, and equipment	8,407	7,385	7,520
Advertising	1,719	1,454	1,381
Amortization of intangible assets	3,656	2,734	3,498
Due diligence, merger-related and merger integration expenses	7,761	6,104	—
Professional fees	4,203	3,268	3,659
Pennsylvania bank shares tax	1,792	1,294	1,749
Information technology	4,942	3,581	3,661
Other operating expenses	16,635	15,248	