

Section 1: 10-K (FORM 10-K)

[Table of Contents](#)

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, 2017
- 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
(State of other jurisdiction of Incorporation or Organization)

23-2434506
(I.R.S. Employer Identification Number)

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

19010
(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
Common Stock (\$1 par value)

Name of each exchange on which registered
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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by checkmark whether the Registrant is a shell company (as defined by Rule 126-2 of the Exchange Act):

Yes No

The aggregate market value of shares of common stock held by non-affiliates of Registrant (including fiduciary accounts administered by affiliates) was \$711,760,477 on June 30, 2017 based on the price at which our common stock was last sold on that date.*

As of February 23, 2018 there were 20,225,269 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 19, 2018 ("2018 Proxy Statement"), as indicated in Parts II and III, are incorporated into this Form 10-K by reference.

* Registrant does not admit by virtue of the foregoing that its officers and directors are "affiliates" as defined in Rule 405.

Form 10-K

Bryn Mawr Bank Corporation

Index

| <u>Item No.</u> | | <u>Page</u> |
|-----------------|--|-------------|
| | Part I | |
| 1. | Business | 1 |
| 1A. | Risk Factors | 11 |
| 1B. | Unresolved Staff Comments | 20 |
| 2. | Properties | 21 |
| 3. | Legal Proceedings | 23 |
| 4. | Mine Safety Disclosures | 23 |
| | Part II | |
| 5. | Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 23 |
| 6. | Selected Financial Data | 26 |
| 7. | Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) | 27 |
| 7A. | Quantitative and Qualitative Disclosures about Market Risk | 53 |
| 8. | Financial Statements and Supplementary Data | 53 |
| 9. | Change in and Disagreements with Accountants on Accounting and Financial Disclosure | 121 |
| 9A. | Controls and Procedures | 121 |
| 9B. | Other Information | 122 |
| | Part III | |
| 10. | Directors and Executive Officers of the Registrant | 122 |
| 11. | Executive Compensation | 122 |
| 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 122 |
| 13. | Certain Relationships and Related Transactions | 123 |
| 14. | Principal Accountant Fees and Services | 123 |
| | Part IV | |
| 15. | Exhibits and Financial Statement Schedules | 123 |

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements contained in this report and the documents incorporated by reference herein may constitute forward-looking statements for the purposes of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended. As such, they are only predictions and may involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Bryn Mawr Bank Corporation (the "Corporation") to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements include statements with respect to the Corporation's financial 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," "believe" and similar expressions are intended to identify such forward-looking statements. The Corporation's actual results may differ materially from the results anticipated by the forward-looking statements due to a variety of factors, including without limitation:

- *local, regional, national and international economic conditions, their impact on us and our customers, and our ability to assess those impacts;*
- *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 that adversely affect our business, including changes in federal income tax or other tax regulations;*
- *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 and estimates in the value of collateral, and various financial assets and liabilities;*
- *inflation, securities market and monetary fluctuations;*
- *changes in the securities markets with respect to 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;*
- *legislation or other governmental action affecting the financial services industry as a whole, the Corporation, or its subsidiaries individually or collectively, including changes in laws and regulations (including laws and regulations concerning banking, securities and insurance) with which we must comply;*
- *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;*
- *our common stock outstanding and common stock price volatility;*
- *fair value of and number of stock-based compensation awards to be issued in future periods;*
- *with respect to mergers and acquisitions, our business and the acquired business will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; • following the completion of a merger or acquisition, revenues may be lower than expected and/or expenses may be higher than expected;*
- *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;*
- *material differences in the actual financial results of our merger and acquisition activities compared with expectations, such as with respect to the full realization of anticipated cost savings and revenue enhancements within the expected time frame;*
- *our success in continuing to generate new business in our existing markets, as well as their success in 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 and the ability to continue to develop investment products in a manner that meets customers' needs;*

Table of Contents

- *changes in consumer and business spending, borrowing and savings habits and demand for financial services in the relevant market areas;*
- *rapid technological developments and changes;*
- *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;*
- *our ability to continue to introduce competitive new products and services on a timely, cost-effective basis and the mix of those products and services;*
- *our ability to contain costs and expenses;*
- *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;*
- *the ability of key third-party providers to perform their obligations to us and our subsidiaries;*
- *the need for capital, ability to control operating costs and expenses, and to manage loan and lease delinquency rates;*
- *the credit risks of lending activities and overall quality of the composition of acquired loan, lease and securities portfolio;*
- *the inability of key third-party providers to perform their obligations to us;*
- *other material adverse changes in operations or earnings;*
- *risks related to our recent merger with Royal Bancshares of Pennsylvania, Inc. ("RBPI"), including, but not limited to: reputational risks and the reaction of the former RBPI customers to the transaction; diversion of management time on integration-related issues; integration of the acquired business may take longer than anticipated or cost more than expected; the anticipated benefits of the merger, including any anticipated cost savings or strategic gains may be significantly harder to achieve or take longer than anticipated or fail to be achieved; 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 11 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.

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 37 full-service branches, eight limited-hour retirement community offices, two limited-service branches, six wealth offices and a full-service insurance agency. The Corporation's branches and offices are located throughout Montgomery, Delaware, Chester, Philadelphia, Berks and Dauphin counties of Pennsylvania, Mercer and Camden counties of New Jersey and New Castle county in Delaware. 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 lifting out 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.bmtc.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. Further copies of these reports are located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding our filings, at www.sec.gov.

OPERATIONS

• **Bryn Mawr Bank Corporation**

The Corporation has no active staff as of December 31, 2017. 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, 2017, the Corporation and its subsidiaries had 623 full-time and 57 part-time employees, totaling 652 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 RBPI Merger that are not included in the below descriptions as they are not integral or significant to our business.

• **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.

[Table of Contents](#)

The Bank presently operates 37 full-service branches, eight limited-hour retirement community offices, two limited-service branches and four wealth management offices located throughout Montgomery, Delaware, Chester, Philadelphia, Berks, and Dauphin counties of Pennsylvania. See the section titled "COMPETITION" later in this item for additional information.

- **Lau Associates LLC**

Lau Associates LLC, a 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 employed 13 full time employees as of December 31, 2017, which are included in the Corporation's employment numbers. Lau Associates LLC 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. BMTC-DE employed nine full-time and three part time employees as of December 31, 2017. BMTC-DE employees are included in the Corporation's employment numbers. 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 a 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. BMT Investment Advisers had no employees as of December 31, 2017.

ACTIVE SUBSIDIARIES OF THE BANK

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

- **KCMI 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. As of December 31, 2017, KCMI employed eight full-time employees which are included in the Corporation's employment numbers above.

- **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 Rosemont, 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.

As of December 31, 2017, BMT Insurance Advisors employed 31 full-time employees, of whom 28 are licensed insurance agents, along with one part-time employee, who is also a licensed insurance agent. BMT Insurance Advisors employees are included in the Corporation's employment numbers above.

- **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. BMEF had ten employees as of December 31, 2017. BMEF employees are included in the Corporation's employment numbers above.

BUSINESS COMBINATIONS

The Corporation and its subsidiaries engaged in the following business combinations since January 1, 2013:

- **Royal Bancshares of Pennsylvania, Inc.**

On December 15, 2017, the merger of Royal Bancshares of Pennsylvania, Inc. ("RBPI") with and into the Corporation (the "RPBI Merger"), and the merger of Royal Bank America with and into the Bank, were completed. Consideration totaled \$138.6 million, comprised of 3,098,754 shares of the Corporation's common stock, the assumption of 140,224 warrants to purchase Corporation common stock, valued at \$1.9 million, \$112 thousand for the cash-out of certain options and \$7 thousand cash in lieu of fractional shares. The RBPI Merger initially added \$570.4 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, with three contingent cash payments, not to exceed \$575 thousand each, to be payable on each of May 24, 2018, May 24, 2019, and May 24, 2020, subject to the attainment of certain targets during the related periods. The acquisition of Hirshorn expanded the Bank's footprint into this desirable northwest corner of Philadelphia. Immediately after acquisition, Hirshorn was merged into PCPB.

[Table of Contents](#)

- **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) and \$100 thousand were paid during the second quarters of 2016 and 2017, respectively and three remaining contingent cash payments, not to exceed \$100 thousand each, will be payable on each of March 31, 2018, March 31, 2019 and March 31, 2020, subject to the attainment of certain revenue targets during the related periods. Shortly after acquisition, RJM was merged into PCPB.

- **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.

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

On October 1, 2014, the acquisition of PCPB, an insurance brokerage 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 recently 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 28, “Segment Information,” in the Notes to the Consolidated Financial Statements located in this Annual Report on Form 10-K for additional information. The Corporation had no discontinued operations in 2015, 2016 or 2017.

FINANCIAL INFORMATION ABOUT SEGMENTS

The financial information concerning the Corporation’s business segments is incorporated by reference to this Annual Report on Form 10-K in the section captioned Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) and Note 28, “Segment Information,” in the Notes to Consolidated Financial Statements.

DESCRIPTION OF BUSINESS AND COMPETITION

The Corporation and its subsidiaries, including the Bank, compete for deposits, loans, wealth management and insurance services in Delaware, Montgomery, Chester, Philadelphia, Berks, and Dauphin counties in Pennsylvania, Mercer and Camden counties in New Jersey, and New Castle County in Delaware. The Corporation has a significant presence in the Philadelphia suburbs along the Route 30 corridor, also known as the “Main Line”. The Corporation has 37 full-service branches, eight limited-hour retirement community offices, two limited-service branches, one insurance agency (operating from two locations) and six wealth management offices.

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.

[Table of Contents](#)

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, and the May 2017 acquisition of Hirshorn 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.

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 a 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.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

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 revenues 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.

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.

[Table of Contents](#)

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 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 Bank Holding Company 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 2018 net income plus its net retained earnings for the previous two years. As of January 1, 2018, this amount was \$38.5 million. However, the amount of dividends paid by the Bank cannot reduce capital levels below levels that would cause the Bank to be 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.

[Table of Contents](#)

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 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 2017 was an annualized rate of .64 basis points. Payments of the FICO assessment during the twelve months ended December 31, 2017 totaled \$165 thousand. Included in our FICO assessment paid in 2017 was \$8 thousand related to RBPI as a result of the RBPI Merger.

• **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 Banking Department 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.

[Table of Contents](#)

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 was being phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. All of the U.S. banking regulators have delayed the last phase of the capital rules' transition provisions relating to certain deductions from capital and limitations on the recognition of minority interests. The final rule, released on November 21, 2017, effectively freezes the currently applicable phase-in of the transition provisions for these capital requirements until separate rulemaking is finalized.

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 Bank's and the Corporation's regulators have the power to impose an additional buffer, the "countercyclical buffer," of up to 2.5% of common equity Tier I capital to take into account the macro-financial environment and periods of excessive credit growth. However, this buffer is only applicable to "advanced approach banks" (i.e., banks with \$250 billion or more in total assets or \$10 billion or more in total foreign exposures), which currently excludes the Corporation and the Bank. 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.

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.

- **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.

Table of Contents

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 25 in the Notes to 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 a 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**

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 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.

• **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.

[Table of Contents](#)

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 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 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 \$10.0 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 market price of the Corporation’s Common Stock may fluctuate significantly in response to a number of factors including those that follow. The following list contains certain risks that may be unique to the Corporation and to the banking industry. The following list of risks should not be viewed as an all-inclusive list or in any particular order.

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.

Table of Contents

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, and 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.

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 expense 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. Also, 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. Continued 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 could decrease the value of Wealth Management Division assets under management and administration resulting in lower fee income, and clients potentially seeking alternative investment opportunities with other providers, which could result in lower fee income to the Corporation.

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; 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.

[Table of Contents](#)

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 acquiring and investing in banks and in other complementary businesses, such as wealth advisory or insurance agencies, or opening new branches or offices. 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 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.

[Table of Contents](#)

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.

The FASB's recently adopted 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.

In June 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2016-13, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss model, or CECL. Under the CECL model, we will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will materially affect how we determine our allowance for loan losses and could require us to significantly increase our allowance. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses. If we are required to materially increase our level of allowance for loan and lease losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

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 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.

[Table of Contents](#)

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 pursuant to which the assessment base against which FDIC assessments for deposit insurance are made will change. 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.

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 (FHLB advances, Federal advances and Federal fund line borrowings). Wholesale funding at December 31, 2017 represented approximately 15.9% of total funding compared to 18.0% at December 31, 2016 and 17.9% at December 31, 2015. 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.

[Table of Contents](#)

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:

- 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 and the Bank 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 supervision that govern almost all aspects of our business operations, which are primarily designed to protect consumers, depositors and the government's deposit insurance funds, and to accomplish other governmental policy objectives such as combating terrorism. That regulatory framework is not designed to protect shareholders. We are required to comply with a variety of laws and regulations, including the Bank Secrecy Act, 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, and licensing and registration requirements for mortgage originators. Recent and potential future changes in laws and regulations, escalating regulatory expectations and heightened regulatory attention to mortgage and foreclosure-related activities and exposures and other business practices require that we devote substantial management attention and resources to regulatory compliance. While the Corporation has policies and procedures designed to ensure compliance with regulatory requirements, there is risk that the Corporation and the Bank may be determined not to have complied with applicable requirements. Any failure by the Corporation or the Bank to comply with these requirements, 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.

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

With the 2016 U.S. presidential election resulting in a new President and a new political party controlling the Executive Branch of the Federal Government, the new administration has brought and may continue to bring changes to the U.S. financial services industry that we cannot now predict. Public comments by President Donald J. Trump may suggest his 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.

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.

[Table of Contents](#)

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 imposes 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 Volker Rule. 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.

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.

[Table of Contents](#)

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; however we may receive requests in the future, 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, which may adversely impact results of operations

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 effective income tax rates in effect at the time of uses. On December 22, 2017, legislation commonly known as the Tax Cuts and Jobs Act (the "Tax Reform"), was signed into law. The Tax Reform, among other changes, reduces the U.S. federal corporate income tax rate from 35% to 21%. As a result of the Tax Reform, the Corporation has recorded a provisional one-time tax expense of \$15.2 million, which consisted primarily of the re-measurement of deferred tax assets and liabilities from the enacted federal rate of 35% to 21%.

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

A significant portion of our loan portfolio is secured by real property. In the course of our business, we may own, acquire in bank acquisition such as the RBPI Merger, or foreclose and take title to real estate and could become subject to environmental liabilities with respect to these properties. We may become responsible to a governmental agency or third parties for property damage, personal injury, investigation and clean-up costs incurred by those parties in connection with environmental contamination, or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with environmental investigation or remediation activities could be substantial. If we were to become subject to significant environmental liabilities, it could have a material adverse effect on our results of operations and financial condition.

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.

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.

[Table of Contents](#)

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 be able to 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 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 regards to advertising and public relations spending. For a more complete discussion of our competitive environment, see "Business—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.

[Table of Contents](#)

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. Additionally, 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.

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, materially adversely affect 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 as a result of the downgrade could extend to the borrowers of the loans the bank makes and, as a result, could adversely affect its 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.

Additional risk factors also include the following all of which may reduce revenues and/or increase expenses and/or pull the Corporation's attention away from core banking operations which may ultimately reduce the Corporation's net income:

- changes in securities analysts' estimates of financial performance;
- volatility of stock market prices and volumes;
- rumors or erroneous information;
- changes in market values of similar companies;
- new developments in the banking industry;
- variations in quarterly or annual operating results;
- new litigation or changes in existing litigation;
- regulatory actions;
- restructuring of government-sponsored enterprises such as Fannie Mae and Freddie Mac;

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2017, the Corporation owns or leases 37 full-service branch locations, eight limited-hour retirement community branches, two limited-service branch locations, six wealth management offices, one insurance agency and eight other office properties which serve as administrative offices.

The following table details the Corporation's properties and deposits as of December 31, 2017:

| <u>Property Address</u> | <u>Owned/Leased</u> |
|---|---------------------|
| Full Service Branches (Banking Segment): | |
| 801 Lancaster Ave., Bryn Mawr, PA 19010* | Owned |
| 105 W. 4th St., Bridgeport, PA 19405 | Owned |
| 3218 Edgemont Ave., Brookhaven, PA 19015 | Owned |
| 18 W. Eagle Rd., Havertown, PA 19083 | Owned |
| 655 W. DeKalb Pk., King of Prussia, PA 19406 | Owned |
| 22 W. State St., Media, PA 19063 | Owned |
| 732 Montgomery Ave., Narberth, PA 19072 | Owned |
| 39 W. Lancaster Ave., Paoli, PA 19301 | Owned |
| 6331 Castor Ave., Philadelphia, PA 19149 | Owned |
| 1650 Grant Ave., Philadelphia, PA 19115 | Owned |
| 330 Dartmouth Ave., Swarthmore, PA 19081 | Owned |
| 330 E. Lancaster Ave., Wayne, PA 19087 | Owned |
| 50 W. Lancaster Ave., Ardmore, PA 19003 | Leased |
| 5000 Pennell Rd., Aston, PA 19014 | Leased |
| 135 E. City Ave., Bala Cynwyd, PA 19004 | Leased |
| 1651 Blackwood Clementon Rd., Blackwood, NJ 08012 | Leased |
| 599 Skippack Pk., Blue Bell, PA 19422 | Leased |
| US Rts. 1 and 100, Chadds Ford, PA 19317 | Leased |
| 23 E. Fifth St., Chester, PA 19013 | Leased |
| 31 Baltimore Pk., Chester Heights, PA 19017 | Leased |
| 528 Fayette St., Conshohocken, PA 19428 | Leased |
| 113 W. Germantown Pk., East Norriton, PA 19401 | Leased |
| 237 N. Pottstown Pk., Exton, PA 19341 | Leased |
| 106 E. Street Rd., Kennett Square, PA 19348 | Leased |
| 197 E. DeKalb Pk., King of Prussia, PA 19406 | Leased |
| 33 W. Ridge Pk., Limerick, PA 19468 | Leased |

[Table of Contents](#)

| | |
|--|--------|
| 3601 West Chester Pk., Newtown Square, PA 19073 | Leased |
| 7133 Ridge Ave., Philadelphia, PA 19128 | Leased |
| 180 W. Girard Ave., Philadelphia, PA 19123 | Leased |
| 1230 Walnut St., Philadelphia, PA 19107 | Leased |
| 124 Main St., Phoenixville, PA 19460 | Leased |
| 516 E. Lancaster Ave., Shillington, PA 19607 | Leased |
| 795 E. Lancaster Ave., Villanova, PA 19085 | Leased |
| 849 Paoli Pk., West Chester, PA 19380 | Leased |
| 436 Egypt Rd., West Norriton, PA 19428 | Leased |
| 155 York Rd., Willow Grove, PA 19046 | Leased |
| 1000 Rocky Run Parkway, Wilmington, DE 19803 | Leased |
| Life Care Community Offices (Banking Segment): | |
| 10000 Shannondell Dr., Audubon, PA 19403 | Leased |
| 404 Cheswick Pl., Bryn Mawr, PA 19010 | Leased |
| 601 N. Ithan Ave., Bryn Mawr, PA 19010 | Leased |
| 1400 Waverly Rd., Gladwyne, PA 19035 | Leased |
| 3300 Darby Rd., Haverford, PA 19041 | Leased |
| 11 Martins Run, Media, PA 19063 | Leased |
| 535 Gradyville Rd., Newtown Square, PA 19073 | Leased |
| 1615 E. Boot Rd., West Chester, PA 19380 | Leased |
| Limited Service Branches (Banking Segment): | |
| 20 Montchanin Rd., Suite 185 Greenville, DE 19807** | Leased |
| 20 Nassau St., 100A, Princeton, NJ | Leased |
| Other Administrative Offices (Banking and Wealth Management Segments) | |
| 10 S. Bryn Mawr Ave., Bryn Mawr, PA 19010*** | Owned |
| 322 E. Lancaster Ave., Wayne, PA 19087 | Owned |
| 2, 6 S. Bryn Mawr Ave., Bryn Mawr, PA 19010 | Leased |
| 4093 W. Lincoln Hwy., Exton, PA 19341** | Leased |
| 16 Campus Blvd., Newtown Square, PA 19073** | Leased |
| 1 West Chocolate Ave., Hershey, PA 17033*** | Leased |
| 620 W. Germantown Pk., Plymouth Mtg, PA 19462** | Leased |
| 20 North Waterloo Rd., Devon PA 19380*** | Leased |

Table of Contents

| | |
|---|--------|
| 15 Garrett Ave, Rosemont, PA 19010**** | Leased |
| 14 E Highland Ave., Philadelphia, PA 19118**** | Leased |
| 47 Hulfish St. 400, Princeton, NJ*** | Leased |
| 115 West Ave., Jenkintown, PA | Leased |
| 3411 Silverside Rd., #103 Springer, Wilmington, DE | Leased |
| Subsidiary Offices (Wealth Management Segment): | |
| Lau Associates - 20 Montchanin Rd., Suite 110, Greenville, DE 19087 | Leased |
| BMTC-DE - 20 Montchanin Rd., Suite 100 Greenville, DE 19807 | Leased |

- * Corporate headquarters and executive offices
- ** Lending office
- *** Wealth Management office
- **** Insurance Agency

ITEM 3. LEGAL PROCEEDINGS

On April 11, 2017, Paul Parshall, a purported shareholder of Royal Bancshares of Pennsylvania, Inc., filed a purported class action lawsuit (the “Parshall lawsuit”) in the U.S. District Court for the Eastern District of Pennsylvania (the “Court”) against RBPI and the Corporation. Mr. Parshall alleged that the Corporation, as a “control person” of RBPI, should be liable for what he claimed to be inadequate disclosures in the proxy statement/prospectus RBPI sent to its shareholders in connection with soliciting approval of the Corporation’s acquisition of RBPI. Mr. Parshall did not articulate any monetary damages in his complaint, but sought the right to prevent the Corporation’s acquisition of RBPI (or in the alternative, if it does proceed, rescind it or award rescissory damages), an order for an amended proxy statement/prospectus, a declaratory judgment that the defendants, including the Corporation, violated federal securities laws, and unspecified attorney’s fees and litigation costs. On September 28, 2017, the Court approved a joint stipulation dismissing as “moot” the Parshall lawsuit with prejudice as to Mr. Parshall’s claims and without prejudice as to the putative class. Management considers this matter closed.

The information required by this Item is set forth in the “Legal Matters” discussion in Note 23, “Contingencies” in the Notes to the Consolidated Financial Statements, 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.

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 23, 2018 there were 763 holders of record of the Corporation’s common stock.

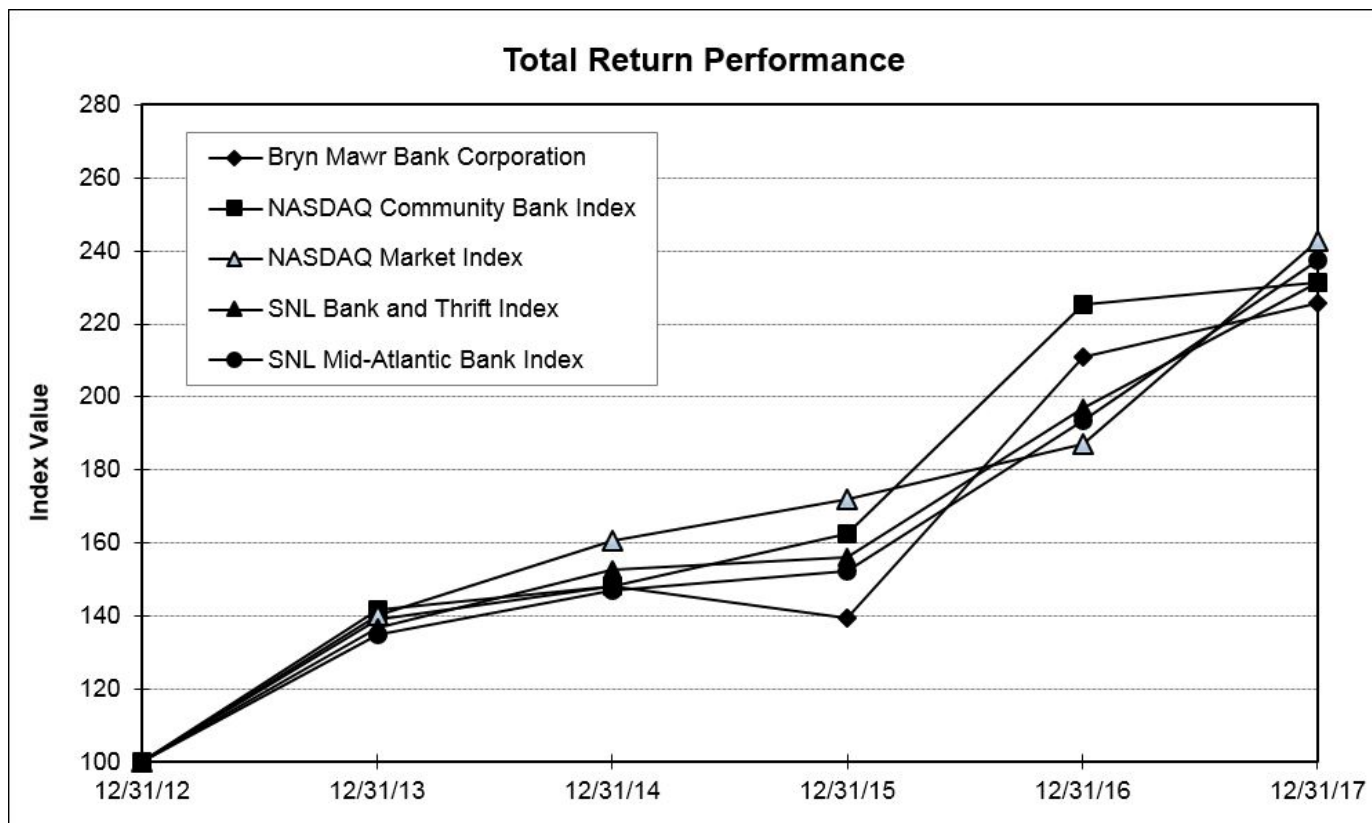
The following table sets forth the range of high and low sales prices for the common stock for each full quarterly period within the two most recent fiscal years as well as the quarterly dividends paid.

| | 2017 | | | 2016 | | |
|-------------------------|----------|----------|-------------------|----------|----------|-------------------|
| | High | Low | Dividend Declared | High | Low | Dividend Declared |
| 1 st Quarter | \$ 42.60 | \$ 36.80 | \$ 0.21 | \$ 29.18 | \$ 23.92 | \$ 0.20 |
| 2 nd Quarter | \$ 43.85 | \$ 38.50 | \$ 0.21 | \$ 30.53 | \$ 24.83 | \$ 0.20 |
| 3 rd Quarter | \$ 44.40 | \$ 38.75 | \$ 0.22 | \$ 32.50 | \$ 28.13 | \$ 0.21 |
| 4 th Quarter | \$ 46.55 | \$ 41.40 | \$ 0.22 | \$ 42.45 | \$ 29.50 | \$ 0.21 |

The information regarding dividend restrictions is set forth in Note 24 – “Dividend Restrictions” in the accompanying Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

• **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, 2017, 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, 2012, 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.



Five Year Cumulative Return Summary

| | As of December 31, | | | | | |
|-----------------------------|--------------------|-----------|-----------|-----------|-----------|-----------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Bryn Mawr Bank Corporation | \$ 100.00 | \$ 139.27 | \$ 148.16 | \$ 139.62 | \$ 210.83 | \$ 225.62 |
| NASDAQ Community Bank Index | \$ 100.00 | \$ 141.68 | \$ 148.28 | \$ 162.44 | \$ 225.41 | \$ 231.20 |
| NASDAQ Market Index | \$ 100.00 | \$ 140.12 | \$ 160.78 | \$ 171.97 | \$ 187.22 | \$ 242.71 |
| SNL Bank and Thrift | \$ 100.00 | \$ 136.92 | \$ 152.85 | \$ 155.94 | \$ 196.86 | \$ 231.49 |
| SNL Mid-Atlantic Bank | \$ 100.00 | \$ 134.79 | \$ 146.85 | \$ 152.36 | \$ 193.66 | \$ 237.34 |

• **Equity Compensation Plan Information**

The information set forth under the caption “Equity Plan Compensation Information” in the 2018 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 Consolidated Financial Statements found 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 2017:

Shares Repurchased in the 4th Quarter of 2017

| Period: | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs⁽¹⁾ |
|---|---|---|---|--|
| Oct. 1, 2017 – Oct. 31, 2017 ⁽²⁾ | 610 | \$ 44.65 | — | 189,300 |
| Nov. 1, 2017 – Nov. 30, 2017 | — | — | — | 189,300 |
| Dec. 1, 2017 – Dec. 31, 2017 ⁽³⁾ | 400 | \$ 44.36 | — | 189,300 |
| Total | <u>1,010</u> | <u>\$ 44.54</u> | <u>—</u> | <u>189,300</u> |

(1) 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. During the three months ended December 31, 2017, no repurchases occurred under the 2015 Program. As of December 31, 2017, the maximum number of shares remaining authorized for repurchase under the 2015 Program was 189,300.

(2) On October 5, 2017, 610 shares were purchased to cover statutory tax withholding requirements on vested stock awards for certain officers of the Corporation.

(3) On December 29, 2017, 400 were purchased by the Corporation’s deferred compensation plans through open market transactions.

ITEM 6. SELECTED FINANCIAL DATA

| Earnings (dollars in thousands) | As of or for the Twelve Months Ended December 31, | | | | |
|---|---|--------------|--------------|--------------|--------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Interest income | \$ 129,559 | \$ 116,991 | \$ 108,542 | \$ 82,906 | \$ 78,417 |
| Interest expense | 14,432 | 10,755 | 8,415 | 6,078 | 5,427 |
| Net interest income | 115,127 | 106,236 | 100,127 | 76,828 | 72,990 |
| Provision for loan and lease losses | 2,618 | 4,326 | 4,396 | 884 | 3,575 |
| Net interest income after provision for loan and lease losses | 112,509 | 101,910 | 95,731 | 75,944 | 69,415 |
| Non-interest income | 59,132 | 53,968 | 55,785 | 48,223 | 48,283 |
| Non-interest expense | 114,395 | 101,674 | 125,590 | 81,319 | 80,668 |
| Income before income taxes | 57,246 | 54,204 | 25,926 | 42,848 | 37,030 |
| Income taxes | 34,230 | 18,168 | 9,172 | 15,005 | 12,586 |
| Net Income | \$ 23,016 | \$ 36,036 | \$ 16,754 | \$ 27,843 | \$ 24,444 |
| Per Share Data | | | | | |
| Weighted-average shares outstanding | 17,150,125 | 16,859,623 | 17,488,325 | 13,566,239 | 13,311,215 |
| Dilutive potential Common Stock | 248,798 | 168,499 | 267,996 | 294,801 | 260,395 |
| Adjusted weighted-average shares | 17,398,923 | 17,028,122 | 17,756,321 | 13,861,040 | 13,571,610 |
| Earnings per common share: | | | | | |
| Basic | \$ 1.34 | \$ 2.14 | \$ 0.96 | \$ 2.05 | \$ 1.84 |
| Diluted | \$ 1.32 | \$ 2.12 | \$ 0.94 | \$ 2.01 | \$ 1.80 |
| Dividends declared | \$ 0.86 | \$ 0.82 | \$ 0.78 | \$ 0.74 | \$ 0.69 |
| Dividends declared per share to net income per basic common share | 59.79% | 38.3% | 81.3% | 36.1% | 37.5% |
| Shares outstanding at year end | 20,161,395 | 16,939,715 | 17,071,523 | 13,769,336 | 13,650,354 |
| Book value per share | \$ 26.19 | \$ 22.50 | \$ 21.42 | \$ 17.83 | \$ 16.84 |
| Tangible book value per share | \$ 15.98 | \$ 15.11 | \$ 13.89 | \$ 13.59 | \$ 13.02 |
| Profitability Ratios | | | | | |
| Tax-equivalent net interest margin | 3.69% | 3.76% | 3.75% | 3.93% | 3.98% |
| Return on average assets | 0.67% | 1.16% | 0.57% | 1.32% | 1.23% |
| Return on average equity | 5.76% | 9.75% | 4.49% | 11.56% | 11.53% |
| Non-interest expense to net interest income and non-interest income | 65.6% | 63.5% | 80.6% | 65.0% | 66.5% |
| Non-interest income to net interest income and non-interest income | 33.9% | 33.7% | 35.8% | 38.6% | 39.8% |
| Average equity to average total assets | 11.69% | 11.90% | 12.68% | 11.38% | 10.63% |
| Financial Condition | | | | | |
| Total assets | \$ 4,449,720 | \$ 3,421,530 | \$ 3,030,997 | \$ 2,246,506 | \$ 2,061,665 |
| Total liabilities | 3,921,601 | 3,040,403 | 2,665,286 | 2,001,032 | 1,831,767 |
| Total shareholders' equity | 528,119 | 381,127 | 365,711 | 245,474 | 229,898 |
| Interest-earning assets | 4,039,763 | 3,153,015 | 2,755,506 | 2,092,164 | 1,905,398 |
| Portfolio loans and leases | 3,285,858 | 2,535,425 | 2,268,988 | 1,652,257 | 1,547,185 |
| Investment securities | 701,744 | 573,763 | 352,916 | 233,473 | 289,245 |
| Goodwill | 179,889 | 104,765 | 104,765 | 35,502 | 32,843 |
| Intangible assets | 25,966 | 20,405 | 23,903 | 22,998 | 19,365 |
| Deposits | 3,373,798 | 2,579,675 | 2,252,725 | 1,688,028 | 1,591,347 |
| Borrowings | 496,837 | 423,425 | 378,509 | 283,970 | 216,535 |
| Wealth assets under management, administration, supervision and brokerage | 12,968,738 | 11,328,457 | 8,364,805 | 7,699,908 | 7,268,273 |
| Capital Ratios | | | | | |
| Tier I leverage ratio (Tier I capital to total quarterly average assets) | 10.04% | 8.73% | 9.02% | 9.54% | 9.29% |
| Tier I capital to risk weighted assets | 10.36% | 10.51% | 10.72% | 12.00% | 11.57% |
| Total regulatory capital to risk weighted assets | 13.85% | 12.35% | 12.61% | 12.87% | 12.55% |
| Asset quality | | | | | |
| Allowance as a percentage of portfolio loans and leases | 0.53% | 0.69% | 0.70% | 0.88% | 1.00% |
| Non-performing loans and leases as a % of portfolio loans and leases | 0.26% | 0.33% | 0.45% | 0.61% | 0.68% |

[Table of Contents](#)

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

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 37 full-service branches, eight limited-hour retirement community offices, two limited-service branches, six wealth management offices and a full-service insurance agency located throughout Montgomery, Delaware, Chester, Philadelphia, Berks, and Dauphin counties in Pennsylvania, Mercer and Camden counties of New Jersey, and New Castle county in Delaware. The common stock of the Corporation trades on the NASDAQ Stock Market (“NASDAQ”) under the symbol BMTX.

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 nine acquisitions:

- 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 at page 1 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.

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 history 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, 2017, 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, 2017, 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* 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, 2017, 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 completes an annual impairment test for other intangible assets, or more often, if events and circumstances indicate a possible impairment. During 2016, management made a voluntary change in the method of applying an accounting principle related to the timing of the annual goodwill impairment assessment from December 31st to October 31st based on the time-intensive nature of the goodwill impairment assessment. Management does not consider this change in impairment testing date to be a material change in application of an accounting principle. There was no goodwill impairment recorded during the twelve-month periods ended December 31, 2017, 2016 or 2015. There was no impairment of identifiable intangible assets during the twelve-month periods ended December 31, 2017 or 2016. For the twelve-month period ended December 31, 2015, a \$387 thousand impairment related to a favorable lease asset was incurred. 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 Notes to Consolidated Financial Statements. The Corporation’s 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

Domestic economic growth in the U.S. accelerated in the middle two quarters of 2017, after a slow start to the year. U.S. Real GDP grew by +3.2% in the third quarter, after a growth level of +3.1% in the second quarter. On a preliminary basis, Real GDP grew at +2.6% in the fourth quarter of 2017, with forecasts for faster growth in the first half of 2018.

At the Federal Open Market Committee’s last meeting of 2017 on December 12-13, the Federal Reserve raised the target range for the federal funds rate by 0.25% to a range of 1.25% - 1.50%, as expected. On January 31 of this year, the FOMC completed its first two-day meeting of 2018 and delivered a more hawkish tone in its statement concerning growth and inflation. Currently, Fed Funds futures are implying that the Fed will raise short term rates three times over the course of the year.

[Table of Contents](#)

With monetary policy turning less accommodative, fiscal policy has become more supportive of growth. H.R.1, or the "Tax Cuts and Jobs Act" ("Tax Reform") was signed into law by President Trump on December 22, 2017, and became effective on January 1, 2018. The legislation is designed to lower both corporate and individual income rates, with the dual goals of making U.S. corporations more competitive globally with a less onerous tax structure, as well as providing U.S. individual taxpayers with more after-tax discretionary income.

Financial markets entered 2018, with the major stock market indices registering new highs and interest rates, both at the short and long ends of the yield curve, rising. Fundamental drivers of financial asset prices remain very strong. However, we believe that volatility will run at a higher level this year versus 2017.

Executive Overview

The following Executive Overview provides a summary-level review of the results of operation for 2017 compared to 2016 and 2016 compared to 2015 as well as a comparison of the December 31, 2017 balance sheet as compared to the December 31, 2016 balance sheet. More detailed information regarding these comparisons can be found in the sections that follow.

2017 Compared to 2016

Income Statement

The Corporation reported net income of \$23.0 million or \$1.32 diluted earnings per share for the twelve months ended December 31, 2017, as compared to \$36.0 million, or \$2.12 diluted earnings per share, for the same period in 2016. Return on average equity ("ROE") and return on average assets ("ROA") for the twelve months 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. 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.

Average loans and investments increased \$309.1 million over the prior year driving a \$12.8 million increase in tax-equivalent interest income. Average interest-bearing deposits and borrowings increased \$210.6 million contributing to a \$3.7 million increase in interest expense over the prior year. The tax-equivalent yield earned on loans for the twelve months ended December 31, 2017 decreased one basis point from the same period in 2016, while the tax-equivalent yield in available for sale investments increased 24 basis points over the same period. The rate paid on interest-bearing deposits and borrowings also increased by twelve and six basis points, respectively.

For the twelve months ended December 31, 2017, the Provision of \$2.6 million was a \$1.7 million decrease from the \$4.3 million recorded for the same period in 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.

Non-interest income for the twelve months ended December 31, 2017 was \$59.1 million, a \$5.2 million increase from the same period in 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 revenue increased \$867 thousand for the twelve months 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 non-interest 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.

Non-interest expense for the twelve months ended December 31, 2017, was \$114.4 million, an increase of \$12.7 million, as compared to the same period in 2016. The increase was largely related to a \$6.1 million increase in due diligence and merger-related expenses primarily related to 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 smaller extent, the December 15, 2017 RBPI Merger. Annual salary and wage increases and increases in incentive compensation also contributed to the increase.

[Table of Contents](#)

Balance Sheet

Asset quality as of December 31, 2017 is stable, with nonperforming loans and leases comprising 0.26% of portfolio loans as compared to 0.33% of portfolio loans as of December 31, 2016. The Allowance of \$17.5 million was 0.53% of portfolio loans and leases as of December 31, 2017, as compared to \$17.5 million, or 0.69% of portfolio loans and leases, at December 31, 2016. The 16 basis point decrease in the Allowance as a percentage of portfolio loans was primarily related to the addition of \$570.4 million of loans acquired in the RBPI Merger, for which no Allowance was carried-over in acquisition. These acquired loans were recorded at fair value, which considers an estimate of lifetime credit losses, and therefore excludes the loans, initially, from the requirement for an Allowance.

Total portfolio loans and leases of \$3.29 billion as of December 31, 2017 increased \$750.4 million, or 29.6%, from \$2.54 billion as of December 31, 2016. As noted previously, this increase includes \$570.4 million of loans acquired in the RBPI Merger.

The Corporation's available for sale investment portfolio was \$689.2 million as compared to \$567.0 million at December 31, 2016. The \$122.2 million increase in available for sale investments over the period was the result of purchases made during 2017 in anticipation of the RBPI Merger and the immediate sale of the acquired investment portfolio.

Deposits of \$3.37 billion, as of December 31, 2017, increased \$794.1 million from December 31, 2016. The RBPI Merger added \$593.2 million of deposits. The portion of the deposits in the noninterest-bearing category was 27.4% of total deposits.

Wealth Assets

Wealth assets under management, administration, supervision and brokerage increased to \$12.97 billion as of December 31, 2017, an increase of \$1.64 billion from \$11.33 billion as of December 31, 2016. The increase in wealth assets was comprised of a \$582 million increase in account balances whose fees are based on market value, and a \$1.06 billion increase in fixed rate flat-fee account balances.

2016 Compared to 2015

Income Statement

The Corporation reported net income of \$36.0 million or \$2.12 diluted earnings per share for the twelve months ended December 31, 2016, as compared to \$16.8 million, or \$0.94 diluted earnings per share, for the same period in 2015. Return on average equity ("ROE") and return on average assets ("ROA") for the twelve months ended December 31, 2016, were 9.75% and 1.16%, respectively, as compared to 4.49% and 0.57%, respectively, for the same period in 2015. The increase in net income for the twelve months ended December 31, 2016, as compared to the same period in 2015, was largely related to the \$17.4 million pre-tax loss on the settlement of the corporate pension plan, which was recorded for the twelve months ended December 31, 2015. In addition to the absence of the pension settlement charge, net interest income for the twelve months ended December 31, 2016 increased by \$6.1 million and due diligence, merger-related and merger integration expenses decreased by \$6.7 million from the same period in 2015.

The \$6.2 million increase in the Corporation's tax-equivalent net interest income for the twelve months ended December 31, 2016, as compared to the same period in 2015, was related to a \$268.8 million increase in average loans offset by a \$117.8 million decrease in interest-earning deposits with other banks. This redeployment of low-yielding cash on deposit with other banks to higher yielding loans resulted in an \$8.2 million increase in tax-equivalent interest income. The tax-equivalent yield earned on loans for the twelve months ended December 31, 2016 was 4.57%, while the tax-equivalent yield earned on interest-earning deposits with other banks was only 0.39%. Partially offsetting the increase in average loans, average interest-bearing deposits increased by \$86.4 million, accompanied by an eight basis point increase in rate paid on deposits. Average long-term Federal Home Loan Bank ("FHLB") advances and other borrowings decreased by \$29.0 million between the twelve month periods ended December 31, 2015 and 2016 as the inflow of deposits during 2016 alleviated the need to increase borrowings to support loan growth.

For the twelve months ended December 31, 2016, the Provision of \$4.3 million was virtually unchanged from the \$4.4 million recorded for the same period in 2015. Net loan and lease charge offs for the twelve months ended December 31, 2016 totaled \$2.7 million, a decrease of \$428 thousand from the same period in 2015.

Non-interest income for the twelve months ended December 31, 2016 was \$54.0 million, a \$1.8 million decrease from the same period in 2015. Decreases of \$1.0 million in gain on sale of available for sale investment securities, \$319 thousand in dividends on FHLB and Federal Reserve Bank ("FRB") stocks and \$204 thousand in fees for wealth management services were the primary contributors to this decrease.

[Table of Contents](#)

Non-interest expense for the twelve months ended December 31, 2016, was \$101.7 million, a decrease of \$23.9 million, as compared to the same period in 2015. The primary causes of this decrease were the absences of the \$17.4 million loss on settlement of the corporate pension and the \$6.7 million in due diligence, merger-related and merger integration costs recorded in 2015. Partially offsetting these improvements were increases of \$2.8 million and \$679 thousand in salaries and wages and furniture, fixtures and equipment, respectively.

Balance Sheet

Asset quality as of December 31, 2016 was stable, with nonperforming loans and leases comprising 0.33% of portfolio loans as compared to 0.45% of portfolio loans as of December 31, 2015. The Allowance of \$17.5 million was 0.69% of portfolio loans and leases as of December 31, 2016, as compared to \$15.9 million, or 0.70% of portfolio loans and leases, at December 31, 2015. The relatively unchanged level of Allowance reflects the continued strength of credit quality in the loan portfolio.

Total portfolio loans and leases of \$2.54 billion as of December 31, 2016 increased \$266.4 million, or 11.7%, from \$2.27 billion as of December 31, 2015.

The Corporation's available for sale investment portfolio as of December 31, 2016 had a fair value of \$567.0 million, as compared to \$349.0 million at December 31, 2015. Largely responsible for the increase was the purchase, in December 2016, of \$200 million of short-term treasury bills.

Deposits of \$2.58 billion, as of December 31, 2016, increased \$327.0 million from December 31, 2015. One third of the increase in deposits was in the non-interest-bearing segment of the portfolio.

Wealth Assets

Wealth assets under management, administration, supervision and brokerage increased to \$11.33 billion as of December 31, 2016, an increase of \$2.96 billion from \$8.36 billion as of December 31, 2015. Approximately two-thirds of the increase in assets was in flat-fee or fixed-fee accounts.

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;
- **Non-Interest 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;
- **Non-Interest 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.

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 balances (volume) and the change in interest rates (rate) of tax-equivalent net interest income for the years 2017 as compared to 2016, and 2016 as compared to 2015, allocated by rate and volume. The change in interest income / expense due to both volume and rate has been allocated to changes in volume.

| (dollars in thousands) increase/(decrease) | Year Ended December 31, | | | | | |
|---|-------------------------|------------|----------|-----------------------|------------|----------|
| | 2017 Compared to 2016 | | | 2016 Compared to 2015 | | |
| | Volume | Rate | Total | Volume | Rate | Total |
| Interest Income: | | | | | | |
| Interest-bearing deposits with banks | \$ (35) | \$ 41 | \$ 6 | \$ (300) | \$ 59 | \$ (241) |
| Investment securities - taxable | 1,427 | 1,018 | 2,445 | 213 | 373 | 586 |
| Investment securities -nontaxable | (216) | 49 | (167) | (19) | 20 | 1 |
| Loans and leases | 10,733 | (267) | 10,466 | 12,636 | (4,418) | 8,218 |
| Total interest income | 11,909 | 841 | 12,750 | 12,530 | (3,966) | 8,564 |
| Interest expense: | | | | | | |
| Savings, NOW and market rate accounts | 161 | 643 | 804 | 167 | — | 167 |
| Wholesale deposits | 186 | 639 | 825 | 192 | 276 | 468 |
| Retail time deposits | 500 | 786 | 1,286 | 48 | 938 | 986 |
| Borrowed funds – short-term | 226 | 1,071 | 1,297 | 1 | 44 | 45 |
| Borrowed funds – long-term | (971) | 238 | (733) | (404) | 203 | (201) |
| Subordinated notes | 182 | (30) | 152 | 864 | 11 | 875 |
| Junior subordinated debentures | 46 | — | 46 | — | — | — |
| Total interest expense | 330 | 3,347 | 3,677 | 868 | 1,472 | 2,340 |
| Interest differential | \$ 11,579 | \$ (2,506) | \$ 9,073 | \$ 11,662 | \$ (5,438) | \$ 6,224 |

* The tax rate used in the calculation of the tax-equivalent income is 35%.

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:

| | For the Year Ended December 31, | | | | | | | | |
|--|---------------------------------|-------------------------|---------------------------|-----------------|-------------------------|---------------------------|-----------------|-------------------------|---------------------------|
| | 2017 | | | 2016 | | | 2015 | | |
| | Average Balance | Interest Income/Expense | Average Rates Earned/Paid | Average Balance | Interest Income/Expense | Average Rates Earned/Paid | Average Balance | Interest Income/Expense | Average Rates Earned/Paid |
| <i>(dollars in thousands)</i> | | | | | | | | | |
| Assets: | | | | | | | | | |
| Interest-bearing deposits with banks | \$ 34,122 | \$ 174 | 0.51% | \$ 43,214 | \$ 168 | 0.39% | \$ 161,032 | \$ 409 | 0.25% |
| Investment securities - available for sale: | | | | | | | | | |
| Taxable | 409,813 | 8,229 | 2.01% | 329,161 | 5,784 | 1.76% | 315,741 | 5,124 | 1.62% |
| Tax - Exempt | 27,062 | 575 | 2.12% | 38,173 | 742 | 1.94% | 39,200 | 741 | 1.89% |
| Total investment securities - available for sale | 436,875 | 8,804 | 2.02% | 367,334 | 6,526 | 1.78% | 354,941 | 5,865 | 1.65% |
| Investment securities - held to maturity | 5,621 | 4 | 0.07% | 2,060 | 4 | 0.19% | — | — | — |
| Investment securities - trading | 4,185 | 2 | 0.05% | 3,740 | 2 | 0.05% | 3,881 | 80 | 2.06% |
| Loans and leases ⁽¹⁾⁽²⁾⁽³⁾ | 2,664,944 | 121,391 | 4.56% | 2,429,416 | 110,925 | 4.57% | 2,160,628 | 102,707 | 4.75% |
| Total interest-earning assets | 3,145,747 | 130,375 | 4.14% | 2,845,764 | 117,625 | 4.13% | 2,680,482 | 109,061 | 4.07% |
| Cash and due from banks | 13,293 | | | 16,317 | | | 17,615 | | |
| Allowance for loan and lease losses | (17,181) | | | (17,159) | | | (15,099) | | |
| Other assets | 274,287 | | | 260,728 | | | 259,515 | | |
| Total assets | \$ 3,416,146 | | | \$ 3,105,650 | | | \$ 2,942,513 | | |
| Liabilities: | | | | | | | | | |
| Savings, NOW, and market rate accounts | \$ 1,383,560 | \$ 3,289 | 0.24% | \$ 1,292,228 | \$ 2,485 | 0.19% | \$ 1,249,567 | \$ 2,318 | 0.19% |
| Wholesale deposits | 188,179 | 2,065 | 1.10% | 163,724 | 1,240 | 0.76% | 130,773 | 772 | 0.59% |
| Time deposits | 330,797 | 3,394 | 1.03% | 266,772 | 2,108 | 0.79% | 255,961 | 1,122 | 0.44% |
| Total interest-bearing deposits | 1,902,536 | 8,748 | 0.46% | 1,722,724 | 5,833 | 0.34% | 1,636,301 | 4,212 | 0.26% |
| Short-term borrowings | 128,008 | 1,390 | 1.09% | 37,041 | 93 | 0.25% | 36,010 | 48 | 0.13% |
| Long-term FHLB advances | 161,004 | 2,620 | 1.63% | 225,815 | 3,353 | 1.48% | 254,828 | 3,554 | 1.39% |
| Subordinated notes | 33,153 | 1,628 | 4.91% | 29,503 | 1,476 | 5.00% | 12,013 | 601 | 5.00% |
| Junior subordinated debt | 997 | 46 | 4.61% | — | — | — | — | — | — |
| Total interest-bearing liabilities | 2,225,698 | 14,432 | 0.65% | 2,015,083 | 10,755 | 0.53% | 1,939,152 | 8,415 | 0.43% |
| Non-interest-bearing deposits | 751,069 | | | 687,134 | | | 594,122 | | |
| Other liabilities | 40,109 | | | 33,904 | | | 36,151 | | |
| Total non-interest-bearing liabilities | 791,178 | | | 721,038 | | | 630,273 | | |
| Total liabilities | 3,016,876 | | | 2,736,121 | | | 2,569,425 | | |
| Shareholders' equity | 399,270 | | | 369,529 | | | 373,088 | | |
| Total liabilities and shareholders' equity | \$ 3,416,146 | | | \$ 3,105,650 | | | \$ 2,942,513 | | |
| Net interest spread | | | 3.49% | | | 3.60% | | | 3.64% |
| Effect of non-interest-bearing sources | | | 0.20% | | | 0.16% | | | 0.11% |
| Net interest income/margin on earning assets | \$ 115,943 | | 3.69% | \$ 106,870 | | 3.76% | \$ 100,646 | | 3.75% |
| Tax-equivalent adjustment (tax rate 35%) | \$ 816 | | 0.03% | \$ 634 | | 0.02% | \$ 519 | | 0.02% |

⁽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 \$947, \$522 and \$424 for the years ended December 31, 2017, 2016 and 2015, respectively.

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

Tax-equivalent net interest income increased \$9.1 million while net interest margin decreased seven basis point to 3.69% for the twelve months ended December 31, 2017. The \$10.5 million increase in tax-equivalent interest income on loans was primarily volume-driven, with average loans increasing \$235.5 million year over year with yields remaining relatively flat. Tax-equivalent interest income on available for sale securities increased \$2.3 million over the prior year as average available for sale investment securities increased \$69.5 million and experienced a 24 basis point increase in tax-equivalent yield.

Average interest-bearing deposits increased \$179.8 million accompanied by a twelve basis point increase in the rate paid on these deposits. Average borrowings increased \$30.8 million with an eight basis point increase in rates paid. The increases in average interest-bearing deposits and borrowings along with the increase in related rates paid corresponded to a \$3.7 million increase in interest expense over the prior period. The contribution to the tax-equivalent net interest margin from the accretion of purchase accounting adjustments was lower in 2017 than 2016, adding seven basis points in 2017 as compared to 13 basis points in 2016.

Tax-Equivalent Net Interest Income and Margin – 2016 Compared to 2015

The tax-equivalent net interest margin increased 1 basis point to 3.76% for the twelve months ended December 31, 2016, as compared to 3.75%, for the same period in 2015. The effect on interest income of the \$268.8 million increase in average loans between periods was partially offset by an 18 basis point decrease in tax-equivalent yield earned on loans and leases between periods. On the liability side, the \$86.4 million increase in average interest-bearing deposits, accompanied by an 8 basis point increase in rate paid on deposits and the \$29.0 million decrease in long-term FHLB advances and other borrowings whose rate paid increased by 9 basis points, combined to offset the margin improvement from the asset growth. The contribution to the tax-equivalent net interest margin from the accretion of purchase accounting adjustments was lower in 2016 than 2015, adding 13 basis points in 2016 as compared to 18 basis points in 2016.

Tax-equivalent net interest income for the twelve months ended December 31, 2016 of \$106.9 million, was \$6.2 million higher than the tax-equivalent net interest income of \$100.6 million for the same period in 2015. The primary driver for the increase in tax-equivalent net interest income was the volume increase in average loans and leases, partially offset by a yield decrease, which added \$8.2 million in interest income. The impact of this loan growth was partially offset by a volume increase and an increase in rate paid for interest-bearing deposits, which decreased tax-equivalent net interest income by \$1.6 million.

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-Interest-Bearing Sources | Tax-Equivalent Net Interest Margin |
|-----------------|------|---------------------|---------------------------------|---------------------|--|------------------------------------|
| 4 th | 2017 | 4.15% | 0.74% | 3.41% | 0.21% | 3.62% |
| 3 rd | 2017 | 4.18% | 0.67% | 3.51% | 0.20% | 3.71% |
| 2 nd | 2017 | 4.11% | 0.61% | 3.50% | 0.18% | 3.68% |
| 1 st | 2017 | 4.14% | 0.56% | 3.58% | 0.16% | 3.74% |
| 4 th | 2016 | 4.05% | 0.56% | 3.49% | 0.16% | 3.65% |

Interest Rate Sensitivity

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

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

The following 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 is assumes static interest rates and does not incorporate forecasted changes in the yield curve. The changes to net interest income shown below are in compliance with the Corporation's policy guidelines.

Summary of Interest Rate Simulation

| | Change in Net Interest Income Over the Twelve Months Beginning After December 31, 2017 | | Change in Net Interest Income Over the Twelve Months Beginning After December 31, 2016 | |
|-------------------|---|------------|---|------------|
| | Amount | Percentage | Amount | Percentage |
| | +300 basis points | \$ 15,953 | 10.66% | \$ 10,207 |
| +200 basis points | \$ 10,644 | 7.11% | \$ 6,653 | 5.87% |
| +100 basis points | \$ 5,316 | 3.55% | \$ 3,048 | 2.69% |
| -100 basis points | \$ (6,913) | (4.62%) | \$ (4,397) | (3.88%) |

The above interest rate simulation suggests that the Corporation's balance sheet is asset sensitive as of December 31, 2017 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 more asset sensitive in a rising-rate environment as of December 31, 2017 than it was as of December 31, 2016. This increase in sensitivity is related to a decrease in cash balances, an increase in floating rate loans, the issuance of subordinated debt which has a fixed rate for five years, and an increase in fixed rate certificates of deposit. The magnitude of the change in net interest income resulting from a 100 basis point decrease in rates as compared to the magnitude of the increase in net income accompanying a 100 basis point increase in rates is the result of the ability to decrease loan rates to more of a degree than deposits rates in a down 100 basis point rate shift.

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 uncertain economic environment and the current 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 periods. 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 and the investment preferences of management. Non-rate-sensitive assets and liabilities are spread over time periods to reflect management's view of the maturity of these funds.

[Table of Contents](#)

Non-maturity deposits (demand deposits in particular) are recognized by the Bank's regulatory agencies to have different sensitivities to interest rate environments. Consequently, it is an accepted practice to spread non-maturity deposits over defined time periods to capture that sensitivity. Commercial demand deposits are often in the form of compensating balances, and fluctuate inversely to the level of interest rates; the maturity of these deposits is reported as having a shorter life than typical retail demand deposits. Additionally, the Bank's regulatory agencies have suggested distribution limits for non-maturity deposits. However, management has taken a more conservative approach than these limits would suggest by forecasting these deposit types with a shorter maturity. The following table presents the Corporation's gap analysis as of December 31, 2017:

| <i>(dollars in millions)</i> | 0 to 90 Days | 91 to 365 Days | 1 - 5 Years | Over 5 Years | Non-Rate Sensitive | Total |
|--|-------------------------|---------------------------|------------------------|-------------------------|-------------------------------|-------------------|
| Assets: | | | | | | |
| Interest-bearing deposits with banks | \$ 48.4 | \$ — | \$ — | \$ — | \$ — | \$ 48.4 |
| Investment securities ⁽¹⁾ | 224.3 | 61.1 | 290.4 | 125.9 | — | 701.7 |
| Loans and leases ⁽²⁾ | 1,237.4 | 393.6 | 1,205.7 | 453.0 | — | 3,289.7 |
| Allowance | — | — | — | — | (17.5) | (17.5) |
| Cash and due from banks | — | — | — | — | 11.7 | 11.7 |
| Other assets | — | — | — | — | 415.7 | 415.7 |
| Total assets | \$ 1,510.1 | \$ 454.7 | \$ 1,496.1 | \$ 578.9 | \$ 409.9 | \$ 4,449.7 |
| Liabilities and shareholders' equity: | | | | | | |
| Demand, non-interest-bearing | \$ 56.3 | \$ 168.9 | \$ 233.2 | \$ 466.4 | \$ — | \$ 924.8 |
| Savings, NOW and market rate | 114.8 | 344.6 | 814.9 | 408.2 | — | 1,682.5 |
| Time deposits | 58.2 | 321.6 | 149.0 | 3.4 | — | 532.2 |
| Wholesale non-maturity deposits | 62.3 | — | — | — | — | 62.3 |
| Wholesale time deposits | 94.4 | 62.6 | 14.9 | — | — | 171.9 |
| Short-term borrowings | 237.9 | — | — | — | — | 237.9 |
| Long-term FHLB advances | 31.4 | 52.4 | 55.3 | — | — | 139.1 |
| Subordinated notes | — | — | 98.4 | — | — | 98.4 |
| Junior subordinated debentures | 21.4 | — | — | — | — | 21.4 |
| Other liabilities | — | — | — | — | 51.1 | 51.1 |
| Shareholders' equity | 18.9 | 56.6 | 301.8 | 150.8 | — | 528.1 |
| Total liabilities and shareholders' equity | \$ 695.6 | \$ 1,006.7 | \$ 1,667.5 | \$ 1,028.8 | \$ 51.1 | \$ 4,449.7 |
| Interest-earning assets | \$ 1,510.1 | \$ 454.7 | \$ 1,496.1 | \$ 578.9 | \$ — | \$ 4,039.8 |
| Interest-bearing liabilities | 620.4 | 781.2 | 1,132.5 | 411.6 | — | 2,945.7 |
| Difference between interest-earning assets and interest-bearing liabilities | \$ 889.7 | \$ (326.5) | \$ 363.6 | \$ 167.3 | \$ — | \$ 1,094.1 |
| Cumulative difference between interest earning assets and interest-bearing liabilities | \$ 889.7 | \$ 563.2 | \$ 926.8 | \$ 1,094.1 | \$ — | \$ 1,094.1 |
| Cumulative earning assets as a % of cumulative interest-bearing liabilities | 243% | 140% | 137% | 137% | | |

⁽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 and should experience an increase in net interest income in the near term, if interest rates rise. Accordingly, if rates decline, net interest income should decline. Actual results may differ from expected results for many reasons including market reactions, competitor responses, customer behavior and/or regulatory actions.

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."

[Table of Contents](#)

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 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 on payment activity (that is, their delinquency status).

Refer to Note 5-F in the Notes to Consolidated Financial Statements for details regarding credit quality indicators associated with the Corporation's loan and lease portfolio.

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

[Table of Contents](#)

Refer to Note 5 in the Notes to Consolidated Financial Statements 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 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 Note 5-G in the Notes to Consolidated Financial Statements for more information regarding the Corporation's TDRs.

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 Note 5-F in the Notes to Consolidated Financial Statements 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 a more information regarding the Corporation's impaired loans and leases, refer to Notes 5-F and 5-H and for more information regarding loan marks, refer to Note 5-I in the Notes to Consolidated Financial Statements.

Asset Quality and Analysis of Credit Risk

As of December 31, 2017, total non-performing loans and leases were \$8.6 million, representing 0.26% of portfolio loans and leases, as compared to \$8.4 million, or 0.33% of portfolio loans and leases, as of December 31, 2016. The \$216 thousand increase in non-performing loans and leases was comprised of increases of \$1.8 million and \$552 thousand in residential mortgages and commercial mortgages, respectively. These increases were partially offset by decreases of \$1.3 million and \$808 thousand in non-performing commercial and industrial loans and home equity lines and loans, respectively.

The Provision for the twelve-month periods ended December 31, 2017, 2016 and 2015 was \$2.6 million, \$4.3 million and \$4.4 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 twelve months ended December 31, 2017 totaled \$2.6 million as compared to \$2.7 million for the same period in 2016. Total portfolio loans increased by \$750.4 million during the twelve months ended December 31, 2017 as compared to \$266.4 million for the same period in 2016. As of December 31, 2017, the Allowance of \$17.5 million represents 0.53% of portfolio loans and leases, as compared to the Allowance as of December 31, 2016 of \$17.5 million, which represented 0.69% of portfolio loans and leases as of that date.

As of December 31, 2017, the Corporation had other real estate owned ("OREO") valued at \$304 thousand, as compared to \$1.0 million as of December 31, 2016. The decrease was related to the sale of five residential properties, carried at \$1.2 million, which resulted in a \$104 thousand loss on sale. Additions to OREO during 2017 included one residential property added through foreclosure and the properties acquired in the RBPI Merger.

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 for six months or greater, and hence, excluded from non-performing loans and leases. As of December 31, 2016, the Corporation had \$9.0 million of TDRs, of which \$6.4 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, 2017, the Corporation had \$14.2 million of impaired loans and leases, as compared to \$14.4 million as of December 31, 2016. Refer to Note 5-H in the Notes to Consolidated Financial Statements for more information regarding the Corporation's impaired loans and leases.

Management continues to be diligent in its credit underwriting process and 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.

[Table of Contents](#)

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

| <i>(dollars in thousands)</i> | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|--------------|--------------|--------------|--------------|--------------|
| Non-accrual loans and leases | \$ 8,579 | \$ 8,363 | \$ 10,244 | \$ 10,096 | \$ 10,530 |
| Loans 90 days or more past due and still accruing | — | — | — | — | — |
| Total non-performing loans and leases | 8,579 | 8,363 | 10,244 | 10,096 | 10,530 |
| Other real estate owned | 304 | 1,017 | 2,638 | 1,147 | 855 |
| Total non-performing assets | \$ 8,883 | \$ 9,380 | \$ 12,882 | \$ 11,243 | \$ 11,385 |
| TDRs included in non-performing assets | \$ 3,289 | \$ 2,632 | \$ 1,935 | \$ 4,315 | \$ 1,699 |
| TDRs in compliance with modified terms | 5,800 | 6,395 | 4,880 | 4,157 | 7,277 |
| Total TDRs | \$ 9,089 | \$ 9,027 | \$ 6,815 | \$ 8,472 | \$ 8,976 |
| Allowance for loan and lease losses to non-performing loans and leases | 204.3% | 209.1% | 154.8% | 144.5% | 147.3% |
| Non-performing loans and leases to total loans and leases | 0.26% | 0.33% | 0.45% | 0.61% | 0.68% |
| Allowance for loan losses to total portfolio loans and leases | 0.53% | 0.69% | 0.70% | 0.88% | 1.00% |
| Non-performing assets to total assets | 0.20% | 0.27% | 0.43% | 0.50% | 0.55% |
| Period-end portfolio loans and leases | \$ 3,285,858 | \$ 2,535,425 | \$ 2,268,988 | \$ 1,652,257 | \$ 1,547,185 |
| Average portfolio loans and leases | \$ 2,660,999 | \$ 2,419,950 | \$ 2,153,542 | \$ 1,608,248 | \$ 1,453,555 |
| Allowance for loan and lease losses | \$ 17,525 | \$ 17,486 | \$ 15,857 | \$ 14,586 | \$ 15,515 |
| 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 | \$ 708 | \$ 1,098 | \$ 1,100 | \$ 533 | \$ 1,074 |
| Interest income on impaired loans included in net income for the period | \$ 485 | \$ 551 | \$ 513 | \$ 341 | \$ 365 |

As of December 31, 2017, 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

| <i>(dollars in thousands)</i> | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|-------------|-------------|-------------|-------------|-------------|
| Balance, January 1 | \$ 17,486 | \$ 15,857 | \$ 14,586 | \$ 15,515 | \$ 14,425 |
| Charge-offs: | | | | | |
| Consumer | (154) | (173) | (177) | (144) | (194) |
| Commercial and industrial | (692) | (1,298) | (1,220) | (415) | (781) |
| Real estate | (1,056) | (1,008) | (1,615) | (1,231) | (891) |
| Construction | — | — | — | — | (737) |
| Leases | (1,224) | (808) | (442) | (410) | (376) |
| Total charge-offs | (3,126) | (3,287) | (3,454) | (2,200) | (2,979) |
| Recoveries: | | | | | |
| Consumer | 8 | 23 | 29 | 17 | 10 |
| Commercial and industrial | 25 | 93 | 35 | 98 | 65 |
| Real estate | 182 | 178 | 160 | 47 | 105 |
| Construction | 4 | 64 | 4 | 60 | 24 |
| Leases | 328 | 232 | 101 | 165 | 290 |
| Total recoveries | 547 | 590 | 329 | 387 | 494 |
| Net charge-offs | (2,579) | (2,697) | (3,125) | (1,813) | (2,485) |
| Provision for loan and lease losses | 2,618 | 4,326 | 4,396 | 884 | 3,575 |
| Balance, December 31 | \$ 17,525 | \$ 17,486 | \$ 15,857 | \$ 14,586 | \$ 15,515 |
| Ratio of net charge-offs to average portfolio loans outstanding | 0.10% | 0.17% | 0.15% | 0.11% | 0.17% |

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.

| <i>(dollars in thousands)</i> | December 31, | | | | | | | | | |
|---|------------------|------------------------------------|------------------|------------------------------------|------------------|------------------------------------|------------------|------------------------------------|------------------|------------------------------------|
| | 2017 | | 2016 | | 2015 | | 2014 | | 2013 | |
| | Allowance | % Loans to Total Loans | Allowance | % Loans to Total Loans | Allowance | % Loans to Total Loans | Allowance | % Loans to Total Loans | Allowance | % Loans to Total Loans |
| Allowance at end of period applicable to: | | | | | | | | | | |
| Commercial mortgage | \$ 7,550 | 46.4% | \$ 6,227 | 43.8% | \$ 5,199 | 42.5% | \$ 3,948 | 41.8% | \$ 3,797 | 40.4% |
| Home equity lines and loans | 1,086 | 6.6 | 1,255 | 8.2 | 1,307 | 9.2 | 1,917 | 11.0 | 2,204 | 12.3 |
| Residential mortgage | 1,926 | 14.0 | 1,917 | 16.3 | 1,740 | 17.9 | 1,736 | 19.0 | 2,446 | 19.4 |
| Construction | 937 | 6.5 | 2,233 | 5.6 | 1,324 | 4.0 | 1,367 | 4.0 | 845 | 3.0 |
| Commercial and industrial | 5,038 | 21.9 | 5,142 | 22.9 | 5,609 | 23.1 | 4,533 | 20.3 | 5,011 | 21.2 |
| Consumer | 246 | 1.1 | 153 | 1.0 | 142 | 1.0 | 238 | 1.1 | 259 | 1.1 |
| Leases | 742 | 3.5 | 559 | 2.2 | 518 | 2.3 | 468 | 2.8 | 604 | 2.6 |
| Unallocated | — | — | — | — | 18 | — | 379 | — | 349 | — |
| Total | <u>\$ 17,525</u> | <u>100.0%</u> | <u>\$ 17,486</u> | <u>100.0%</u> | <u>\$ 15,857</u> | <u>100.0%</u> | <u>\$ 14,586</u> | <u>100.0%</u> | <u>\$ 15,515</u> | <u>100.0%</u> |

Non-Interest Income

2017 Compared to 2016

Non-interest income for the twelve months ended December 31, 2017 was \$59.1 million, an increase of \$5.2 million as compared to the same period in 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 revenue increased \$867 thousand for the twelve months ended December 31, 2017 as compared to the same period in 2016, due to the May 2017 acquisition of Hirshorn Boothby. Gain on trading investments, which is reported under "Other operating income" increased \$501 thousand between periods. 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. Revenue from our capital markets initiative, which was launched in the second quarter of 2017, contributed \$2.4 million to non-interest income for the twelve months ended December 31, 2017. 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.

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

| <i>(dollars in thousands)</i> | 2017 | 2016 | 2015 |
|------------------------------------|-----------------|-----------------|-----------------|
| Merchant interchange fees | \$ 1,443 | \$ 1,381 | \$ 1,238 |
| Bank owned life insurance income | 959 | 908 | 783 |
| Commissions and fees | 621 | 673 | 867 |
| Safe deposit box rentals | 365 | 382 | 384 |
| Other investment income | 48 | 223 | 248 |
| Rent income | 193 | 163 | 175 |
| Gain (loss) on trading investments | 613 | 112 | (9) |
| Miscellaneous other income | 1,079 | 1,026 | 1,163 |
| Other operating income | <u>\$ 5,321</u> | <u>\$ 4,868</u> | <u>\$ 4,849</u> |

2016 Compared to 2015

Non-interest income for the twelve months ended December 31, 2016 was \$54.0 million, a decrease of \$1.8 million as compared to the same period in 2015. The decrease was related to a \$1.0 million decrease in gain on sale of available for sale investment securities, a \$319 thousand decrease in dividends on FHLB and FRB stocks and a \$204 thousand decrease in fees for wealth management services. The decrease in gain on sale of available for sale investment securities resulted from the very limited sales during the twelve months ended December 31, 2016, which resulted in a loss on sale of \$77 thousand as compared to the sale of \$64.0 million of available for sale investment securities sold during the same period in 2015, which resulted in a gain on sale of \$931 thousand. The majority of the investments sold in 2015 had been acquired in the CBH Merger and were strategically sold to shorten the duration of the portfolio. The \$319 thousand decrease in dividends on FHLB and FRB stocks occurred due to the special dividend paid on FHLB stock in 2015 which was not repeated in 2016. The \$204 thousand decrease in fees for wealth management services was related to the shift in the composition of the wealth management portfolio, with more of the portfolio being comprised of assets held in lower-yielding fixed-fee accounts as of December 31, 2016 as compared to December 31, 2015.

Non-Interest Expense

2017 Compared to 2016

Non-interest expense for the twelve months ended December 31, 2017 was \$114.4 million, an increase of \$12.7 million, compared to the same period in 2016. The increase was largely related to a \$6.1 million increase in due diligence and merger-related and merger integration expenses primarily 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 December 15, 2017 RBPI Merger.

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

| <i>(dollars in thousands)</i> | 2017 | | 2016 | | 2015 | |
|--|-------------|---------------|-------------|---------------|-------------|---------------|
| Telephone and data lines | \$ | 1,616 | \$ | 1,620 | \$ | 1,704 |
| FDIC insurance | | 1,580 | | 1,616 | | 1,447 |
| Temporary help and recruiting | | 852 | | 1,522 | | 1,362 |
| Loan processing | | 291 | | 93 | | 1,110 |
| Debt prepayment penalty | | — | | — | | 1,131 |
| Travel and entertainment | | 900 | | 894 | | 868 |
| Insurance | | 838 | | 788 | | 770 |
| MSR amortization and impairment / (recovery) | | 745 | | 881 | | 660 |
| Stationary and supplies | | 488 | | 518 | | 623 |
| Director fees | | 542 | | 566 | | 568 |
| Postage | | 575 | | 551 | | 540 |
| Outsourced services | | 315 | | 569 | | 508 |
| Contributions | | 1,511 | | 957 | | 468 |
| Dues and subscriptions | | 871 | | 456 | | 441 |
| Portfolio maintenance | | 417 | | 391 | | 385 |
| Other taxes | | 39 | | 45 | | 80 |
| Deferred compensation expense | | 783 | | 664 | | 15 |
| Miscellaneous other expense | | 2,603 | | 1,505 | | 1,643 |
| Other operating expense | \$ | <u>14,966</u> | \$ | <u>13,636</u> | \$ | <u>14,323</u> |

2016 Compared to 2015

Non-interest expense for the twelve months ended December 31, 2016 was \$101.7 million, a decrease of \$23.9 million, as compared to the same period in 2015. The primary driver for the decrease related to the \$17.4 million loss on settlement of the corporate pension plan and the \$6.7 million of due diligence, merger-related and merger integration expenses which had been recorded in the twelve months ended December 31, 2015 but not repeated in 2016. Decreases in several other noninterest expense categories also occurred as the efficiencies and cost-saves related to the CBH Merger began to be realized. Partially offsetting these decreases was a \$2.8 million increase in salaries and wages related to annual salary increases, incentive increases and the hiring of several new senior and executive officers during 2016.

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, 2017, there were no pending or unsettled loan repurchase demands.

Income Tax Expense

Income tax expense for the twelve months ended December 31, 2017 was \$34.2 million as compared to \$18.2 million and \$9.2 million for the same periods in 2016 and 2015, respectively. The effective tax rates for the twelve-month periods ended December 31, 2017, 2016 and 2015 were 59.8%, 33.5% and 35.4%, respectively. The increase in rate from 33.5% to 59.8% between 2016 and 2017 was directly related to the Tax Reform enacted on December 22, 2017. The Tax Reform lowered the top federal corporate rate from 35% to 21%. In accordance with GAAP, this required the re-measurement, in the period including the enactment, of the Corporation's net deferred tax asset to reflect the rate at which they will be recognized in future periods. The result was a \$15.2 million one-time charge to income tax expense. Excluding the \$15.2 million discrete income tax charge, the effective tax rate for 2017 was 33.3%. For more information related to income taxes, refer to Note 19 in the Notes to Consolidated Financial Statements.

Balance Sheet Analysis

Asset Changes

Total assets as of December 31, 2017 increased to \$4.45 billion from \$3.42 billion as of December 31, 2016. The \$1.03 billion increase was largely attributable to the \$859.4 million of assets acquired in the RBPI Merger. The following pro forma balance sheets detail the changes in balance sheet items, excluding the effect of the RBPI Merger from December 31, 2016 to December 31, 2017. The RBPI balances shown are as of the merger date of December 15, 2017.

| | Bryn Mawr Bank Corporation December 31, 2017 (Actual) | Royal Bancshares of Pennsylvania, Inc. December 15, 2017 Opening Balances | Bryn Mawr Bank Corporation December 31, 2017 (Excluding RBPI Opening Balances) | Bryn Mawr Bank Corporation December 31, 2016 (Actual) | Change from December 31, 2016 to December 31, 2017 (Excluding RBPI Opening Balances) (\$) | Change from December 31, 2016 to December 31, 2017 (Excluding RBPI Opening Balances) (%) |
|--|---|---|--|---|--|---|
| <i>(dollars in thousands)</i> | | | | | | |
| Assets | | | | | | |
| Cash and due from banks | \$ 11,657 | \$ 4,822 | \$ 6,835 | \$ 16,559 | \$ (9,724) | (58.7)% |
| Interest-bearing deposits with banks | 48,367 | 12,271 | 36,096 | 34,206 | 1,890 | 5.5% |
| Cash and cash equivalents | 60,024 | 17,093 | 42,931 | 50,765 | (7,834) | (15.4)% |
| Investment securities available for sale | 689,202 | 121,586 | 567,616 | 566,996 | 620 | 0.1% |
| Investment securities held to maturity | 7,932 | — | 7,932 | 2,879 | 5,053 | 175.5% |
| Investment securities, trading | 4,610 | — | 4,610 | 3,888 | 722 | 18.6% |
| Loans held for sale | 3,794 | — | 3,794 | 9,621 | (5,827) | (60.6)% |
| Portfolio loans and leases | 3,285,858 | 570,374 | 2,715,484 | 2,535,425 | 180,059 | 7.1% |
| Less: Allowance for loan and lease losses | (17,525) | — | (17,525) | (17,486) | (39) | 0.2% |
| Net portfolio loans and leases | 3,268,333 | 570,374 | 2,697,959 | 2,517,939 | 180,020 | 7.1% |
| Premises and equipment, net | 54,458 | 8,264 | 46,194 | 41,778 | 4,416 | 10.6% |
| Accrued interest receivable | 14,246 | 2,535 | 11,711 | 8,533 | 3,178 | 37.2% |
| Mortgage servicing rights | 5,861 | — | 5,861 | 5,582 | 279 | 5.0% |
| Bank-owned life insurance | 56,667 | 16,550 | 40,117 | 39,279 | 838 | 2.1% |
| FHLB stock | 20,083 | — | 20,083 | 17,305 | 2,778 | 16.1% |
| Goodwill | 179,889 | 72,762 | 107,127 | 104,765 | 2,362 | 2.3% |
| Intangible assets | 25,966 | 5,235 | 20,731 | 20,405 | 326 | 1.6% |
| Other investments | 12,470 | 5,902 | 6,568 | 8,627 | (2,059) | (23.9)% |
| Other assets | 46,185 | 39,118 | 7,067 | 23,168 | (16,101) | (69.5)% |
| Total assets | \$ 4,449,720 | \$ 859,419 | \$ 3,590,301 | \$ 3,421,530 | \$ 168,771 | 4.9% |
| Liabilities | | | | | | |
| Deposits: | | | | | | |
| Non-interest-bearing | \$ 924,844 | \$ 98,418 | \$ 826,426 | \$ 736,180 | \$ 90,246 | 12.3% |
| Interest-bearing | 2,448,954 | 494,754 | 1,954,200 | 1,843,495 | 110,705 | 6.0% |
| Total deposits | 3,373,798 | 593,172 | 2,780,626 | 2,579,675 | 200,951 | 7.8% |
| Short-term borrowings | 237,865 | 15,000 | 222,865 | 204,151 | 18,714 | 9.2% |
| FHLB advances and other borrowings | 139,140 | 59,568 | 79,572 | 189,742 | (110,170) | (58.1)% |
| Subordinated notes | 98,416 | — | 98,416 | 29,532 | 68,884 | 233.3% |
| Junior subordinated debentures | 21,416 | 21,416 | — | — | — | — |
| Accrued interest payable | 3,527 | 2,816 | 711 | 2,734 | (2,023) | (74.0)% |
| Other liabilities | 47,439 | 29,621 | 17,818 | 34,569 | (16,751) | (48.5)% |
| Total liabilities | 3,921,601 | 721,593 | 3,200,008 | 3,040,403 | 159,605 | 5.2% |
| Shareholders' equity | | | | | | |
| Common stock | 24,360 | 3,099 | 21,261 | 21,111 | 150 | 0.7% |
| Paid-in capital in excess of par value | 371,486 | 135,410 | 236,076 | 232,806 | 3,270 | 1.4% |
| Common stock in treasury, at cost | (68,179) | — | (68,179) | (66,950) | (1,229) | 1.8% |
| Accumulated other comprehensive loss, net of tax benefit | (4,414) | — | (4,414) | (2,409) | (2,005) | 83.2% |
| Retained earnings | 205,549 | — | 205,549 | 196,569 | 8,980 | 4.6% |
| Total Bryn Mawr Bank Corporation shareholders' equity | 528,802 | 138,509 | 390,293 | 381,127 | 9,166 | 2.4% |
| Noncontrolling interest | (683) | (683) | — | — | — | — |
| Total shareholders' equity | 528,119 | 137,826 | 390,293 | 381,127 | 9,166 | 2.4% |
| Total liabilities and shareholders' equity | \$ 4,449,720 | \$ 859,419 | \$ 3,590,301 | \$ 3,421,530 | \$ 168,771 | 4.9% |

[Table of Contents](#)

The following table details the maturity and weighted average yield ⁽¹⁾ of the available for sale investment portfolio ⁽²⁾ as of December 31, 2017:

| <i>(dollars in thousands)</i> | Maturing During 2018 | Maturing From 2019 Through 2022 | Maturing From 2023 Through 2027 | Maturing After 2027 | Total |
|---|----------------------------|---|---|---------------------------|-------------------|
| U.S. Treasury securities: | | | | | |
| Amortized cost | \$ 200,077 | \$ — | \$ — | \$ — | \$ 200,077 |
| Weighted average yield | 1.41% | — | — | — | 1.41% |
| Obligations of the U.S. government and agencies: | | | | | |
| Amortized cost | 1,268 | 114,357 | 21,964 | 15,439 | 153,028 |
| Weighted average yield | 1.54% | 2.07% | 2.25% | 2.68% | 2.15% |
| State and political subdivisions ⁽¹⁾ : | | | | | |
| Amortized cost | 9,174 | 10,995 | 1,183 | — | 21,352 |
| Weighted average yield | 1.50% | 1.68% | 1.60% | — | 1.60% |
| Mortgage-related securities ⁽³⁾ : | | | | | |
| Amortized cost | 107 | 9,199 | 44,797 | 259,451 | 313,554 |
| Weighted average yield | 2.48% | 2.77% | 2.59% | 2.37% | 2.41% |
| Other investment securities: | | | | | |
| Amortized cost | 500 | 1,100 | — | — | 1,600 |
| Weighted average yield | 2.38% | 2.19% | — | — | 2.25% |
| Total amortized cost | <u>\$ 211,126</u> | <u>\$ 135,651</u> | <u>\$ 67,944</u> | <u>\$ 274,890</u> | <u>\$ 689,611</u> |
| Weighted average yield | 1.41% | 2.08% | 2.46% | 2.39% | 2.04% |

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

⁽²⁾ Excluded from the above table is the Corporation's investment in bond mutual funds with an amortized cost of \$3.2 million, which have no stated maturity or constant stated yield.

⁽³⁾ Mortgage-related securities are included in the above table based on their contractual maturity. However, 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:

| <i>(dollars in thousands)</i> | Amortized Cost as of December 31, | | |
|---|-----------------------------------|-------------------|-------------------|
| | 2017 | 2016 | 2015 |
| U.S. Treasury securities | \$ 200,077 | \$ 200,094 | \$ 101 |
| Obligations of the U.S. government and agencies | 153,028 | 83,111 | 101,342 |
| Obligations of state and political subdivisions | 21,352 | 33,625 | 41,892 |
| Mortgage-backed securities | 275,958 | 185,997 | 157,422 |
| Collateralized mortgage obligations | 37,596 | 49,488 | 29,756 |
| Other investment securities | 4,813 | 16,575 | 17,263 |
| Total amortized cost | <u>\$ 692,824</u> | <u>\$ 568,890</u> | <u>\$ 347,776</u> |

Portfolio Loans and Leases

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

| <i>(dollars in thousands)</i> | December 31, | | | | |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Commercial mortgage | \$ 1,523,377 | \$ 1,110,898 | \$ 964,259 | \$ 689,528 | \$ 625,341 |
| Home equity lines & loans | 218,275 | 207,999 | 209,473 | 182,082 | 189,571 |
| Residential mortgage | 458,886 | 413,540 | 406,404 | 313,442 | 300,243 |
| Construction | 212,454 | 141,964 | 90,421 | 66,267 | 46,369 |
| Commercial & industrial | 719,312 | 579,791 | 524,515 | 335,645 | 328,459 |
| Consumer | 38,153 | 25,341 | 22,129 | 18,480 | 16,926 |
| Leases | 115,401 | 55,892 | 51,787 | 46,813 | 40,276 |
| Total portfolio loans and leases | 3,285,858 | 2,535,425 | 2,268,988 | 1,652,257 | 1,547,185 |
| Loans held for sale | 3,794 | 9,621 | 8,987 | 3,882 | 1,350 |
| Total | <u>\$ 3,289,652</u> | <u>\$ 2,545,046</u> | <u>\$ 2,277,975</u> | <u>\$ 1,656,139</u> | <u>\$ 1,548,535</u> |

The following table summarizes the loan maturity distribution and interest rate sensitivity as of December 31, 2017. Excluded from the table are residential mortgage, home equity lines and loans and consumer loans:

| <i>(dollars in thousands)</i> | Maturing | | | | Total |
|---|------------------------|---|------------------------------------|---------------------|--------------|
| | During 2018 | From 2019 Through 2022 | Maturing After 2022 | Total | |
| Loan portfolio maturity: | | | | | |
| Commercial and industrial | \$ 287,145 | \$ 210,978 | \$ 221,189 | \$ 719,312 | |
| Construction | 154,304 | 38,849 | 19,301 | 212,454 | |
| Commercial mortgage | 93,063 | 492,261 | 938,053 | 1,523,377 | |
| Leases | 7,829 | 106,929 | 643 | 115,401 | |
| Total | <u>\$ 542,341</u> | <u>\$ 849,017</u> | <u>\$ 1,179,186</u> | <u>\$ 2,570,544</u> | |
| Interest sensitivity on the above loans: | | | | | |
| Loans with predetermined rates | \$ 132,976 | \$ 654,397 | \$ 466,097 | \$ 1,253,470 | |
| Loans with adjustable or floating rates | 409,365 | 194,620 | 713,089 | 1,317,074 | |
| Total | <u>\$ 542,341</u> | <u>\$ 849,017</u> | <u>\$ 1,179,186</u> | <u>\$ 2,570,544</u> | |

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

- **Portfolio Loans and Leases** – The Corporation's \$3.29 billion loan and lease portfolio is predominantly based in the Corporation's traditional market areas of Chester, Delaware and Montgomery counties in Pennsylvania, New Castle county in Delaware, and in the greater Philadelphia area, none of which has experienced the real estate price appreciation and subsequent decline that many other areas of the country have experienced over the last ten years. As indicated in the pro forma balance sheet above, under the heading "Asset Changes," the RBPI Merger initially added \$570.4 million of portfolio loans.
- **Concentrations** – The Corporation has a significant portion of its portfolio loans (excluding leases) in real estate-related loans. As of December 31, 2017 and December 31, 2016, loans secured by real estate were \$2.41 billion and \$1.87 billion or 73.4% and 73.9% of the total loan portfolio of \$3.29 billion and \$2.54 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 the underwriting and 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.

In addition to loans secured by real estate, commercial and industrial loans comprise 21.9% of the total loan portfolio as of December 31, 2017.

- **Construction** – The construction portfolio of \$212.5 million accounts for 6.5% of the total loan and lease portfolio at December 31, 2017, an increase of \$70.5 million from December 31, 2016. Construction loans acquired in the RBPI Merger totaled \$84.2 million as of 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, 2017 and 2016.

[Table of Contents](#)

- **Residential Mortgages** – Residential mortgage loans were \$458.9 million as of December 31, 2017, an increase of \$45.3 million from December 31, 2016. Residential mortgage loans acquired in the RBPI Merger totaled \$39.2 million as of December 31, 2017. The residential mortgage segment accounts for 14.0% of the total loan and lease portfolio as of December 31, 2017. The residential mortgage segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2017, of 0.32%, as compared to 0.32% as of December 31, 2016. Nonperforming residential mortgage loans comprised 0.96% of the residential mortgage segment of the portfolio as of December 31, 2017, as compared to 0.64% as of December 31, 2016. Management believes it is well protected with its collateral position on this portfolio.
- **Commercial Mortgages** – Commercial mortgages were \$1.52 billion as of December 31, 2017, an increase of \$412.5 million from December 31, 2016. Commercial mortgages acquired in the RBPI Merger totaled \$275.1 million as of 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 46.4% of the total loan and lease portfolio as of December 31, 2017. The commercial mortgage segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2017, of 0.25%, as compared to 0.12% as of December 31, 2016. Nonperforming commercial mortgage loans comprised 0.06% of the commercial mortgage segment of the portfolio as of December 31, 2017, as compared to 0.03% as of December 31, 2016. The borrowers comprising this segment of the portfolio generally have strong, global cash flows, which have remained stable in this tough economic environment.
- **Commercial and Industrial** – Commercial and industrial loans were \$719.3 million as of December 31, 2017, an increase of \$139.5 million from December 31, 2016. Commercial and industrial loans acquired in the RBPI Merger totaled \$107.9 million as of December 31, 2017. The commercial and industrial segment accounts for 21.9% of the total loan and lease portfolio as of December 31, 2017. The commercial and industrial segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2017, of 0.13%, as compared to 0.01% as of December 31, 2016. Nonperforming commercial and industrial loans comprised 0.24% of the commercial and industrial segment of the portfolio as of December 31, 2017, as compared to 0.51% as of December 31, 2016. The commercial and industrial segment of the portfolio consists of loans to privately held institutions, family businesses, non-profit institutions and private banking relationships. While certain of these loans are collateralized by real estate, others are collateralized by non-real estate business assets, including accounts receivable and inventory.
- **Home Equity Loans and Lines of Credit** – Home equity loans and lines of credit were \$218.3 million as of December 31, 2017, an increase of \$10.3 million from December 31, 2016. Home equity loans and lines of credit acquired in the RBPI Merger totaled \$11.9 million as of December 31, 2017. The home equity loans and lines of credit segment accounts for 6.6% of the total loan and lease portfolio as of December 31, 2017. The home equity loans and lines of credit segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2017, of 0.16%, as compared to 0.01% as of December 31, 2016. Nonperforming home equity loans and lines of credit comprised 0.68% of the home equity loans and lines of credit segment of the portfolio as of December 31, 2017, as compared to 1.10% as of December 31, 2016. The Corporation originates the majority of its home equity loans and lines of credit through its branch network.
- **Consumer loans** – Consumer loans were \$38.2 million as of December 31, 2017, an increase of \$12.8 million from December 31, 2016. Consumer loans acquired in the RBPI Merger totaled \$2.9 million as of December 31, 2017. The consumer loan segment accounted for 1.2% of the total loan and lease portfolio as of December 31, 2017. The consumer loan segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2017, of 2.9%, as compared to 0.06% as of December 31, 2016. Nonperforming consumer loans comprised 0.00% of the consumer loan segment of the portfolio as of December 31, 2017, as compared to 0.01% as of December 31, 2016.
- **Leasing** – Leases totaled \$115.4 million as of December 31, 2017, an increase of \$59.5 million from December 31, 2016. Leases acquired in the RBPI Merger totaled \$47.3 million as of December 31, 2017. The lease segment of the portfolio accounted for 3.5% of the total loan and lease portfolio as of December 31, 2017. The lease segment of the portfolio had a delinquency rate on performing leases, as of December 31, 2017, of 0.26%, as compared to 0.47% as of December 31, 2016. Nonperforming leases comprised 0.09% of the leasing segment of the portfolio as of December 31, 2017, as compared to 0.24% as of December 31, 2016.

[Table of Contents](#)

Goodwill and Intangible Assets – Goodwill as of December 31, 2017 increased by \$75.1 million from December 31, 2016 as a result of the RBPI Merger and the acquisition of Hirshorn. Intangible assets, other than Mortgage Servicing Rights (“MSRs”), increased by \$5.6 million from December 31, 2016. The RBPI Merger and the acquisition of Hirshorn added \$8.3 million of intangible assets, which was partially offset by \$2.7 million of amortization. For more information regarding goodwill and intangible assets, see Notes 2 and 3 in the Notes to Consolidated Financial Statements.

FHLB Stock - The Corporation’s investment in stock issued by the FHLB as of December 31, 2017 increased by \$2.8 million, from December 31, 2016. 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 increased \$279 thousand to \$5.9 million as of December 31, 2017 from \$5.6 million as of December 31, 2016. This increase was the result of \$1.0 million of MSRs recorded during the twelve months ended December 31, 2017, reduced by amortization of \$791 thousand and a recovery of previously recorded impairments of \$45 thousand during the period.

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

| <i>(dollars in thousands)</i> | For the Twelve Months Ended or as of December 31, | | |
|--|---|------------|------------|
| | 2017 | 2016 | 2015 |
| Mortgage originations | \$ 190,007 | \$ 280,059 | \$ 231,049 |
| Mortgage loans sold: | | | |
| Servicing retained | \$ 103,439 | \$ 138,134 | \$ 107,351 |
| Servicing released | 27,871 | 22,829 | 29,630 |
| Total mortgage loans sold | \$ 131,310 | \$ 160,963 | \$ 136,981 |
| Percentage of originated mortgage loans sold | 69.1% | 57.5% | 59.3% |
| Servicing retained % | 78.8% | 85.8% | 78.4% |
| Servicing released % | 21.2% | 14.2% | 21.6% |
| Residential mortgage loans serviced for others | \$ 650,703 | \$ 631,889 | \$ 601,939 |
| Mortgage servicing rights | \$ 5,861 | \$ 5,582 | \$ 5,142 |
| Gain on sale of mortgage loans | \$ 2,038 | \$ 2,693 | \$ 2,327 |
| Loan servicing and other fees | \$ 1,939 | \$ 1,939 | \$ 2,087 |
| Amortization of MSRs | \$ 791 | \$ 750 | \$ 590 |
| (Recovery) / Impairment of MSRs | \$ (45) | \$ 131 | \$ 70 |

Liability Changes

Total liabilities as of December 31, 2017 increased \$881.2 million, to \$3.92 billion from December 31, 2016. The increase was largely related to the \$721.6 million of liabilities assumed in the RBPI Merger.

Deposits - Deposits of \$3.37 billion, as of December 31, 2017, increased \$794.1 million from December 31, 2016. The 30.8% increase was largely related to the \$593.2 million of deposits assumed in the RBPI Merger, along with \$200.9 million of organic deposit growth.

The following table details deposits as of the dates indicated:

| <i>(dollars in thousands)</i> | As of December 31, | | | | |
|---------------------------------|--------------------|--------------|--------------|--------------|--------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Interest-bearing checking | \$ 481,336 | \$ 379,424 | \$ 338,861 | \$ 277,228 | \$ 266,787 |
| Money market | 862,639 | 761,657 | 749,726 | 566,354 | 544,310 |
| Savings | 338,572 | 232,193 | 187,299 | 138,992 | 135,240 |
| Wholesale non-maturity deposits | 62,276 | 74,272 | 67,717 | 66,693 | 42,936 |
| Wholesale time deposits | 171,929 | 73,037 | 53,185 | 73,458 | 34,640 |
| Retail time deposits | 532,202 | 322,912 | 229,253 | 118,400 | 140,794 |
| Interest-bearing deposits | \$ 2,448,954 | \$ 1,843,495 | \$ 1,626,041 | \$ 1,241,125 | \$ 1,164,707 |
| Non-interest-bearing deposits | 924,844 | 736,180 | 626,684 | 446,903 | 426,640 |
| Total deposits | \$ 3,373,798 | \$ 2,579,675 | \$ 2,252,725 | \$ 1,688,028 | \$ 1,591,347 |

Table of Contents

The following table summarizes the maturities of certificates of deposit of \$100,000 or greater at December 31, 2017:

| <i>(dollars in thousands)</i> | Retail | Wholesale |
|-------------------------------|-------------------|-------------------|
| Three months or less | \$ 24,719 | \$ 92,663 |
| Three to six months | 52,355 | 50,305 |
| Six to twelve months | 120,052 | 10,239 |
| Greater than twelve months | 62,548 | 14,993 |
| Total | <u>\$ 259,674</u> | <u>\$ 168,200</u> |

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 - Short-term borrowings (original maturity of one year or less) as of December 31, 2017, which consisted of funds obtained from overnight repurchase agreements with commercial customers and short-term FHLB advances increased \$33.7 million from December 31, 2016. As of December 31, 2017, long-term FHLB advances decreased \$50.6 million from December 31, 2016. See the Liquidity Section of this MD&A under the heading “Liquidity” for further details on the Corporation’s FHLB available borrowing capacity.

Subordinated Notes – Subordinated notes, as of December 31, 2017, totaled \$98.4 million and were comprised of \$29.6 million of 10-year 4.75% fixed-to-floating notes which mature in August 2025, and \$68.8 million of 4.25% 10-year fixed-to-floating notes which mature in December 2027.

Junior subordinated debentures – In connection with the RBPI Merger, the Corporation acquired Royal Bancshares Capital Trust I (“Trust I”) and Royal Bancshares Capital Trust II (“Trust II”) (collectively, the “Trusts”), which were utilized for the sole purpose of issuing and selling capital securities representing preferred beneficial interests. Although the Corporation owns \$774,000 of the common securities of Trust I and Trust II, the Trusts are not consolidated into the Corporation’s Consolidated Financial Statements as the Corporation is not deemed to be the primary beneficiary of these entities. In connection with the issuance and sale of the capital securities, RBPI issued, and the Corporation assumed as a result of the RBPI Merger, junior subordinated debentures to the Trusts of \$10.7 million each, totaling \$21.4 million representing the Corporation’s maximum exposure to loss. The junior subordinated debentures incur interest at a coupon rate of 3.74% as of December 31, 2017. The rate resets quarterly based on 3-month LIBOR plus 2.15%. On the date acquired, management recorded these junior subordinated debentures at fair value. The amortization of the fair value mark will adjust interest expense to closer reflect market rates paid on similar debt.

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

The rights of holders of common securities of the Trusts are subordinate to the rights of the holders of capital securities only in the event of a default; otherwise, the common securities’ economic and voting rights are pari passu with the capital securities. The capital and common securities of the Trusts are subject to mandatory redemption upon the maturity or call of the junior subordinated debentures held by each. Unless earlier dissolved, the Trusts will dissolve on December 15, 2034. The junior subordinated debentures are the sole assets of Trusts, mature on December 15, 2034, and may be called at par by the Corporation any time after December 15, 2009. The Corporation records its investments in the Trusts’ common securities of \$387,000 each as investments in unconsolidated entities, within Other Assets, and records dividend income upon declaration by Trust I and Trust II within Other Income.

Discussion of Segments

The Corporation has two operating segments: Wealth Management and Banking. These segments are discussed below. Detailed segment information appears in Note 28 in the Notes to Consolidated Financial Statements.

Wealth Management Segment Activity

The Wealth Management segment, which includes the insurance reporting unit, reported a pre-tax segment profit (“PTSP”) for the twelve months ended December 31, 2017 of \$15.1 million, a \$702 thousand, or 4.9%, increase from the same period in 2016. Fees for wealth management services for 2017 increased by \$2.0 million from the amount recorded in 2016, while expenses increased by \$2.3 million during the same period. 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%, partially as a result of the Hirshorn acquisition, in addition to organic growth.

[Table of Contents](#)

The Wealth Management segment, which includes the insurance reporting unit, reported a PTSP for the twelve months ended December 31, 2016 of \$14.4 million, a \$1.4 million, or 8.6%, decrease from the same period in 2015. Fees for wealth management services for 2016 decreased by \$204 thousand from the amount recorded in 2015, while expenses increased by \$1.1 million during the same period. The decrease in fees, year over year, despite the \$2.96 billion increase in wealth assets from December 31, 2015 to December 31, 2016, is indicative of the continuing shift, during 2016, in the composition of the wealth portfolio. Much of the increase in wealth assets during 2016 was comprised of accounts with flat-fee arrangements, rather than market-based fees. Revenue from the insurance division, which is reported as part of the Wealth Management segment, was relatively unchanged for the twelve months ended December 31, 2016 as compared to the same period in 2015.

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

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

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

(dollars in thousands)

| Fee Basis | Wealth Assets as of: | | |
|--------------|----------------------|-------------------|-------------------|
| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
| Market value | \$ 5,884,692 | \$ 5,302,463 | \$ 4,971,636 |
| Fixed fee | 7,084,046 | 6,025,994 | 3,393,169 |
| Total | \$ 12,968,738 | \$ 11,328,457 | \$ 8,364,805 |

(dollars in thousands)

| Fee Basis | Percentage of Wealth Assets as of: | | |
|--------------|------------------------------------|-------------------|-------------------|
| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
| Market value | 45.4% | 46.8% | 59.4% |
| Fixed fee | 54.6% | 53.2% | 40.6% |
| Total | 100.0% | 100.0% | 100.0% |

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

(dollars in thousands)

| Fee Basis | For the Twelve Months Ended: | | |
|--------------|------------------------------|-------------------|-------------------|
| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
| Market value | \$ 29,752 | \$ 28,418 | \$ 29,219 |
| Fixed fee | 8,983 | 8,272 | 7,675 |
| Total | \$ 38,735 | \$ 36,690 | \$ 36,894 |

(dollars in thousands)

| Fee Basis | Percentage of Fees for Wealth Management Services: | | |
|--------------|--|-------------------|-------------------|
| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
| Market value | 76.8% | 77.5% | 79.2% |
| Fixed fee | 23.2% | 22.5% | 20.8% |
| Total | 100.0% | 100.0% | 100.0% |

Banking Segment Activity

Banking segment data as presented in Note 28 in the Notes to Consolidated Financial Statements indicates a PTSP of \$42.2 million in 2017, \$39.8 million in 2016 and \$10.2 million in 2015. See the section of this MD&A under the heading “Components of Net Income” for a discussion of the Banking Segment.

Capital and Regulatory Capital Ratios

Consolidated shareholders' equity of the Corporation was \$528.1 million, or 11.9% of total assets, as of December 31, 2017, as compared to \$381.1 million, or 11.1% of total assets, as of December 31, 2016.

In March 2015, the Corporation filed a shelf registration statement on Form S-3 (the "Shelf Registration Statement"). The Shelf Registration Statement allows the Corporation to raise additional capital through offers and sales of registered securities consisting of common stock, debt securities, warrants to purchase common stock, stock purchase contracts and units or units consisting of any combination of the foregoing securities. Using the prospectus in the Shelf Registration Statement, together with applicable prospectus supplements, the Corporation may sell, from time to time, in one or more offerings, such securities in a dollar amount up to \$200 million, in the aggregate.

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 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 twelve months ended December 31, 2017, the Corporation did not issue any shares through the Plan. No RFWs were approved during the twelve months ended December 31, 2017. No other sales of equity securities were executed under the Shelf Registration Statement during the twelve months ended December 31, 2017.

Accumulated other comprehensive loss ("AOCL"), as of December 31, 2017 was \$4.4 million, an increase of \$2.0 million from December 31, 2016. The primary cause of the increase in AOCL was the increase in unrealized losses on available for sale investment securities, whose fair values were affected by rising interest rates. In addition, the Corporation early-adopted ASU 2018-02, which allowed for the reclassification of \$782 thousand of stranded tax effects from AOCL to retained earnings.

As detailed in Note 25-E in the Notes to Consolidated Financial Statements, the capital ratios, as of December 31, 2017 and 2016 indicate levels above the regulatory minimum to be considered "well capitalized." In addition to the capital issued in the RBPI Merger, during the fourth quarter of 2017, regulatory capital increases at the Corporation included the net issuance of \$68.8 million of subordinated notes, which qualify as Tier II capital and the acquisition of \$21.4 million of junior subordinated debentures, which are carried in Tier I capital. On the Bank level, the Corporation down-streamed \$15.0 million of capital to the Bank in the fourth quarter of 2017, increasing its Tier I capital balance.

Liquidity

The Corporation has significant sources of liquidity at December 31, 2017. 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 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 \$172 million as of December 31, 2017.

As of December 31, 2017, the maximum borrowing capacity with the FHLB was \$1.37 billion, with an unused borrowing availability of \$1.02 billion. Borrowing availability at the Federal Reserve Discount Window was \$121.3 million, and overnight Fed Funds lines, consisting of lines from seven banks, totaled \$79.0 million. On a monthly basis, the Corporation's Asset Liability Committee 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, 2017, the Corporation held \$20.1 million of FHLB stock as required by the borrowing agreement between the FHLB and the Corporation.

The Corporation has an agreement with CDC to provide up to \$5 million, plus interest, of money market deposits at an agreed upon rate currently at 0.40%. The Corporation had \$10 thousand in balances as of December 31, 2017 under this program. The Corporation can request an increase in the agreement amount as it deems necessary. In addition, the Corporation has an agreement with IND to provide up to \$40 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 \$31 million in balances as of December 31, 2017 under this program.

[Table of Contents](#)

The Corporation's available for sale investment portfolio of \$689.2 million as of December 31, 2017 was 15.5% 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 through other repurchase agreements.

Management continually evaluates its borrowing capacity and sources of liquidity. Management believes that it has sufficient capacity to fund expected 2018 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.

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, 2017, listed by dates of funding or payment:

| <i>(dollars in millions)</i> | Total | Within 1 Year | 2 - 3 Years | 4 - 5 Years | After 5 Years |
|------------------------------|-----------------|------------------|----------------|----------------|------------------|
| Unfunded loan commitments | \$ 748.3 | \$ 468.5 | \$ 94.0 | \$ 19.8 | \$ 166.0 |
| Standby letters of credit | 17.0 | 11.3 | 5.5 | 0.2 | — |
| Total | \$ 765.3 | \$ 479.8 | \$ 99.5 | \$ 20.0 | \$ 166.0 |

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, 2017

| <i>(dollars in millions)</i> | Total | Within 1 Year | 2 - 3 Years | 4 - 5 Years | After 5 Years |
|--|-------------------|-------------------|-----------------|----------------|------------------|
| Deposits without a stated maturity | \$ 2,669.7 | \$ 2,669.7 | \$ — | \$ — | \$ — |
| Wholesale and retail certificates of deposit | 704.1 | 537.1 | 136.5 | 29.7 | 0.8 |
| Short-term borrowings | 237.9 | 237.9 | — | — | — |
| Long-term FHLB Advances | 189.7 | 75.0 | 102.2 | 12.5 | — |
| Subordinated Notes | 100.0 | — | — | — | 100.0 |
| Junior subordinated debentures | 25.8 | — | — | — | 25.8 |
| Operating leases | 32.6 | 6.9 | 8.5 | 6.1 | 11.1 |
| Purchase obligations | 5.1 | 3.4 | 1.7 | — | — |
| Total | \$ 3,964.9 | \$ 3,530.0 | \$ 248.9 | \$ 48.3 | \$ 137.7 |

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.

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.

[Table of Contents](#)

ITEM 7A. QUANTATIVE 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.”

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:

| | <u>Page</u> |
|--|-------------|
| Report of Independent Registered Public Accounting Firm | 54 |
| Consolidated Balance Sheets | 55 |
| Consolidated Statements of Income | 56 |
| Consolidated Statements of Comprehensive Income | 57 |
| Consolidated Statements of Cash Flows | 58 |
| Consolidated Statements of Changes in Shareholders' Equity | 59 |
| Notes to Consolidated Financial Statements | 60 |

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, 2017 and 2016, 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, 2017, 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, 2017, 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, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, 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, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinion

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’s 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.

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, 2018

Consolidated Balance Sheets

| <i>(dollars in thousands)</i> | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 11,657 | \$ 16,559 |
| Interest bearing deposits with banks | 48,367 | 34,206 |
| Cash and cash equivalents | 60,024 | 50,765 |
| Investment securities available for sale, at fair value (amortized cost of \$692,824 and \$568,890 as of December 31, 2017 and December 31, 2016 respectively) | 689,202 | 566,996 |
| Investment securities held to maturity, at amortized cost (fair value of \$7,851 and \$2,818 as of December 31, 2017 and December 31, 2016, respectively) | 7,932 | 2,879 |
| Investment securities, trading | 4,610 | 3,888 |
| Loans held for sale | 3,794 | 9,621 |
| Portfolio loans and leases, originated | 2,487,296 | 2,240,987 |
| Portfolio loans and leases, acquired | 798,562 | 294,438 |
| Total portfolio loans and leases | 3,285,858 | 2,535,425 |
| Less: Allowance for originated loan and lease losses | (17,475) | (17,458) |
| Less: Allowance for acquired loan and lease losses | (50) | (28) |
| Total allowance for loans and lease losses | (17,525) | (17,486) |
| Net portfolio loans and leases | 3,268,333 | 2,517,939 |
| Premises and equipment, net | 54,458 | 41,778 |
| Accrued interest receivable | 14,246 | 8,533 |
| Mortgage servicing rights | 5,861 | 5,582 |
| Bank owned life insurance | 56,667 | 39,279 |
| Federal Home Loan Bank stock | 20,083 | 17,305 |
| Goodwill | 179,889 | 104,765 |
| Intangible assets | 25,966 | 20,405 |
| Other investments | 12,470 | 8,627 |
| Other assets | 46,185 | 23,168 |
| Total assets | <u>\$ 4,449,720</u> | <u>\$ 3,421,530</u> |
| Liabilities | | |
| Deposits: | | |
| Non-interest-bearing | \$ 924,844 | \$ 736,180 |
| Interest-bearing | 2,448,954 | 1,843,495 |
| Total deposits | 3,373,798 | 2,579,675 |
| Short-term borrowings | 237,865 | 204,151 |
| Long-term FHLB advances | 139,140 | 189,742 |
| Subordinated notes | 98,416 | 29,532 |
| Junior subordinated debentures | 21,416 | - |
| Accrued interest payable | 3,527 | 2,734 |
| Other liabilities | 47,439 | 34,569 |
| Total liabilities | 3,921,601 | 3,040,403 |
| Shareholders' equity | | |
| Common stock, par value \$1; authorized 100,000,000 shares; issued 24,360,049 and 21,110,968 shares as of December 31, 2017 and December 31, 2016, respectively, and outstanding of 20,161,395 and 16,939,715 as of December 31, 2017 and December 31, 2016, respectively | 24,360 | 21,111 |
| Paid-in capital in excess of par value | 371,486 | 232,806 |
| Less: Common stock in treasury at cost - 4,198,654 and 4,171,253 shares as of December 31, 2017 and December 31, 2016, respectively | (68,179) | (66,950) |
| Accumulated other comprehensive loss, net of tax | (4,414) | (2,409) |
| Retained earnings | 205,549 | 196,569 |
| Total Bryn Mawr Bank Corporation shareholders' equity | 528,802 | 381,127 |
| Noncontrolling interest | (683) | - |
| Total shareholders' equity | 528,119 | 381,127 |
| Total liabilities and shareholders' equity | <u>\$ 4,449,720</u> | <u>\$ 3,421,530</u> |

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

Consolidated Statements of Income

| | Twelve Months Ended December 31, | | |
|---|----------------------------------|------------------|------------------|
| | 2017 | 2016 | 2015 |
| (dollars in thousands, except per share data) | | | |
| Interest income: | | | |
| Interest and fees on loans and leases | \$ 120,762 | \$ 110,536 | \$ 102,432 |
| Interest on cash and cash equivalents | 174 | 168 | 409 |
| Interest on investment securities: | | | |
| Taxable | 8,136 | 5,575 | 5,018 |
| Non-taxable | 388 | 497 | 497 |
| Dividends | 99 | 215 | 186 |
| Total interest income | 129,559 | 116,991 | 108,542 |
| Interest expense: | | | |
| Interest on deposits | 8,748 | 5,833 | 4,212 |
| Interest on short-term borrowings | 1,390 | 93 | 48 |
| Interest on FHLB advances and other borrowings | 2,620 | 3,353 | 3,554 |
| Interest on subordinated notes | 1,628 | 1,476 | 601 |
| Interest on junior subordinated debentures | 46 | - | - |
| Total interest expense | 14,432 | 10,755 | 8,415 |
| Net interest income | 115,127 | 106,236 | 100,127 |
| Provision for loan and lease losses | 2,618 | 4,326 | 4,396 |
| Net interest income after provision for loan and lease losses | 112,509 | 101,910 | 95,731 |
| Noninterest income: | | | |
| Fees for wealth management services | 38,735 | 36,690 | 36,894 |
| Insurance commissions | 4,589 | 3,722 | 3,745 |
| Capital markets revenue | 2,396 | - | - |
| Service charges on deposits | 2,608 | 2,791 | 2,927 |
| Loan servicing and other fees | 2,106 | 1,939 | 2,087 |
| Net gain on sale of loans | 2,441 | 3,048 | 2,847 |
| Net gain (loss) on sale of investment securities available for sale | 101 | (77) | 931 |
| Net (loss) gain on sale of other real estate owned ("OREO") | (104) | (76) | 123 |
| Dividends on FHLB and FRB stock | 939 | 1,063 | 1,382 |
| Other operating income | 5,321 | 4,868 | 4,849 |
| Total noninterest income | 59,132 | 53,968 | 55,785 |
| Noninterest expenses: | | | |
| Salaries and wages | 53,251 | 47,411 | 44,575 |
| Employee benefits | 10,452 | 9,548 | 10,205 |
| Loss on pension plan settlement | - | - | 17,377 |
| Occupancy and bank premises | 9,906 | 9,611 | 10,305 |
| Branch lease termination expense | - | - | 929 |
| Furniture, fixtures, and equipment | 7,385 | 7,520 | 6,841 |
| Advertising | 1,454 | 1,381 | 2,102 |
| Amortization of intangible assets | 2,734 | 3,498 | 3,827 |
| Impairment of intangible assets | - | - | 387 |
| Due diligence, merger-related and merger integration expenses | 6,104 | - | 6,670 |
| Professional fees | 3,268 | 3,659 | 3,353 |
| Pennsylvania bank shares tax | 1,294 | 1,749 | 1,253 |
| Information technology | 3,581 | 3,661 | 3,443 |
| Other operating expenses | 14,966 | 13,636 | 14,323 |
| Total noninterest expenses | 114,395 | 101,674 | 125,590 |
| Income before income taxes | 57,246 | 54,204 | 25,926 |
| Income tax expense | 34,230 | 18,168 | 9,172 |
| Net income | \$ 23,016 | \$ 36,036 | \$ 16,754 |
| Basic earnings per common share | \$ 1.34 | \$ 2.14 | \$ 0.96 |
| Diluted earnings per common share | \$ 1.32 | \$ 2.12 | \$ 0.94 |
| Dividends declared per share | \$ 0.86 | \$ 0.82 | \$ 0.78 |
| Weighted-average basic shares outstanding | 17,150,125 | 16,859,623 | 17,488,325 |
| Dilutive shares | 248,798 | 168,499 | 267,996 |
| Adjusted weighted-average diluted shares | 17,398,923 | 17,028,122 | 17,756,321 |

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)

| | Twelve Months Ended December 31, | | |
|--|----------------------------------|------------------|------------------|
| | 2017 | 2016 | 2015 |
| Net income | \$ 23,016 | \$ 36,036 | \$ 16,754 |
| Other comprehensive (loss) income: | | | |
| Net change in unrealized losses on investment securities available for sale: | | | |
| Net unrealized losses arising during the period, net of tax (benefit) of \$(640), \$(1,053) and \$(618), respectively | (1,189) | (1,955) | (1,147) |
| Less: reclassification adjustment for net (gain) loss on sale realized in net income, net of tax benefit (expense) of \$(35), \$27, and \$(326), respectively | (66) | 50 | (605) |
| Unrealized investment (losses), net of tax (benefit) of \$(605), \$(1,079) and \$(292), respectively | (1,123) | (2,005) | (542) |
| Net change in fair value of derivative used for cash flow hedge: | | | |
| Net unrealized losses arising during the period, net of tax benefit of \$0, \$0 and \$(228), respectively | - | - | (422) |
| Less: realized loss on cash flow hedge reclassified to earnings, net of tax benefit of \$0, \$0, and \$214, respectively | - | - | 397 |
| Change in fair value of hedging instruments, net of tax expense (benefit) of \$0, \$0 and \$14, respectively | - | - | 25 |
| Net change in unfunded pension liability: | | | |
| Change in unfunded pension liability related to unrealized loss, prior service cost and transition obligation, net of tax (benefit) expense of \$(54), \$5 and \$264, respectively | (100) | 8 | 514 |
| Change in unfunded pension liability related to settlement of pension plan, net of tax expense of \$0, \$0 and \$6,082 | - | - | 11,295 |
| Total change in unfunded pension liability, net of tax expense (benefit) of \$(54), \$5 and \$6,346, respectively | (100) | 8 | 11,809 |
| Total other comprehensive (loss) income | (1,223) | (1,997) | 11,292 |
| Total comprehensive income | <u>\$ 21,793</u> | <u>\$ 34,039</u> | <u>\$ 28,046</u> |

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

Consolidated Statements of Cash Flows

(dollars in thousands)

| | Twelve Months Ended December 31, | | |
|---|----------------------------------|------------------|-------------------|
| | 2017 | 2016 | 2015 |
| Operating activities: | | | |
| Net Income | \$ 23,016 | \$ 36,036 | \$ 16,754 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan and lease losses | 2,618 | 4,326 | 4,396 |
| Depreciation of fixed assets | 5,551 | 5,630 | 4,925 |
| Net amortization of investment premiums and discounts | 2,990 | 3,200 | 3,280 |
| Net loss on settlement of pension plan | - | - | 17,377 |
| Net (gain) loss on sale of investment securities available for sale | (101) | 77 | (931) |
| Net gain on sale of loans | (2,441) | (3,048) | (2,847) |
| Stock-based compensation | 2,068 | 1,713 | 1,441 |
| Amortization and net impairment of mortgage servicing rights | 744 | 880 | 661 |
| Net accretion of fair value adjustments | (2,376) | (3,776) | (4,942) |
| Amortization of intangible assets | 2,733 | 3,498 | 3,827 |
| Impairment of intangible assets | - | - | 387 |
| Impairment of other real estate owned ("OREO") and other repossessed assets | 208 | 94 | 90 |
| Net loss (gain) on sale of OREO | 104 | 76 | (123) |
| Net increase in cash surrender value of bank owned life insurance ("BOLI") | (838) | (908) | (782) |
| Other, net | (568) | (970) | 874 |
| Loans originated for resale | (125,482) | (161,597) | (141,578) |
| Proceeds from loans sold | 132,639 | 162,762 | 138,964 |
| Provision for deferred income taxes | 20,418 | 1,676 | (2,834) |
| Settlement of pension liability acquired in RBPI Merger | (15,233) | - | - |
| Excess tax benefit from stock-based compensation | - | - | (783) |
| Change in income taxes payable/receivable | (7,917) | 4,340 | (529) |
| Change in accrued interest receivable | (3,178) | (664) | (215) |
| Change in accrued interest payable | (2,023) | 883 | 516 |
| Net cash provided by operating activities | <u>32,932</u> | <u>54,228</u> | <u>37,928</u> |
| Investing activities: | | | |
| Purchases of investment securities available for sale | (445,294) | (350,669) | (176,034) |
| Purchases of investment securities held to maturity | (5,189) | (2,928) | - |
| Proceeds from maturity and paydowns of investment securities available for sale | 283,545 | 65,176 | 66,209 |
| Proceeds from maturity and paydowns of investment securities held to maturity | 108 | 34 | - |
| Proceeds from sale of investment securities available for sale | 130,858 | 276 | 64,851 |
| Net change in FHLB stock | (2,778) | (4,363) | 3,562 |
| Proceeds from calls of investment securities | 25,682 | 60,840 | 104,240 |
| Proceeds from sales of other investments | - | 664 | - |
| Net change in other investments | 2,059 | 264 | (4,184) |
| Purchase of domain name | (151) | - | - |
| Net portfolio loan and lease originations | (180,869) | (266,331) | (194,066) |
| Purchases of premises and equipment | (8,304) | (2,207) | (7,611) |
| Purchases of BOLI | - | - | (5,000) |
| Acquisitions, net of cash acquired | 12,301 | - | 16,129 |
| Proceeds from sale of OREO | 1,048 | 1,806 | 1,215 |
| Net cash used in investing activities | <u>(186,984)</u> | <u>(497,438)</u> | <u>(130,689)</u> |
| Financing activities: | | | |
| Change in deposits | 201,015 | 327,169 | 83,784 |
| Change in short-term borrowings | 18,714 | 109,995 | (38,128) |
| Dividends paid | (14,799) | (13,961) | (13,837) |
| Change in long-term FHLB advances and other borrowings | (110,049) | (65,000) | (24,883) |
| Payment of contingent consideration for business combinations | (642) | (627) | (542) |
| Net proceeds from issuance of subordinated notes | 68,829 | - | 29,456 |
| Excess tax benefit from stock-based compensation | - | - | 783 |
| Cash payments to taxing authorities on employees' behalf from shares withheld from stock-based compensation | (1,140) | (745) | - |
| Net purchase of treasury stock for deferred compensation plans | (115) | (133) | (128) |
| Net purchase of treasury stock through publicly announced plans | - | (7,971) | (26,418) |
| Proceeds from issuance of common stock | - | - | 20 |
| Proceeds from exercise of stock options | 1,498 | 2,181 | 6,452 |
| Net cash provided by financing activities | <u>163,311</u> | <u>350,908</u> | <u>16,559</u> |
| Change in cash and cash equivalents | 9,259 | (92,302) | (76,202) |
| Cash and cash equivalents at beginning of period | 50,765 | 143,067 | 219,269 |
| Cash and cash equivalents at end of period | <u>\$ 60,024</u> | <u>\$ 50,765</u> | <u>\$ 143,067</u> |
| Supplemental cash flow information: | | | |
| Cash paid during the year for: | | | |
| Income taxes | \$ 21,632 | \$ 12,261 | \$ 11,703 |
| Interest | \$ 13,639 | \$ 9,872 | \$ 7,604 |
| Non-cash information: | | | |
| Change in other comprehensive loss | \$ (1,223) | \$ (1,997) | \$ 11,292 |
| Change in deferred tax due to change in comprehensive income | \$ (659) | \$ (1,074) | \$ 6,068 |
| Transfer of loans to other real estate owned and repossessed assets | \$ 342 | \$ 546 | \$ 2,283 |
| Issuance of shares, warrants and options for acquisitions | \$ 138,509 | \$ - | \$ 123,734 |
| Acquisition of noncash assets and liabilities: | | | |
| Assets acquired | \$ 849,610 | \$ - | \$ 727,908 |
| Liabilities assumed | \$ 724,085 | \$ - | \$ 620,303 |

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

Consolidated Statements of Changes in Shareholders' Equity

(dollars in thousands, except per share information)

| | For the Years Ended December 31, 2015, 2016 and 2017 | | | | | | | |
|--|--|------------------|--------------------|--------------------|---|----------------------|----------------------------|----------------------------------|
| | Shares of Common Stock Issued | Common Stock | Paid-in Capital | Treasury Stock | Accumulated Other Comprehensive Loss | Retained Earnings | Noncontrolling Interest | Total Shareholders' Equity |
| Balance December 31, 2014 | 16,742,135 | \$ 16,742 | \$ 100,486 | \$ (31,642) | \$ (11,704) | \$ 171,592 | \$ - | \$ 245,474 |
| Net income | - | - | - | - | - | 16,754 | - | 16,754 |
| Dividends declared, \$0.78 per share | - | - | - | - | - | (13,824) | - | (13,824) |
| Other comprehensive income, net of tax expense of \$6,080 | - | - | - | - | 11,292 | - | - | 11,292 |
| Stock based compensation | - | - | 1,441 | - | - | - | - | 1,441 |
| Excess tax benefit from stock-based compensation | - | - | 783 | - | - | - | - | 783 |
| Retirement of treasury stock | (4,418) | (4) | (40) | 44 | - | - | - | - |
| Cancellation of forfeited restricted stock awards | (27,375) | (27) | 27 | - | - | - | - | - |
| Net purchase of treasury stock | - | - | - | (26,546) | - | - | - | (26,546) |
| Shares issued in acquisitions | 3,878,304 | 3,878 | 117,513 | - | - | - | - | 121,391 |
| Options assumed in acquisitions | - | - | 2,343 | - | - | - | - | 2,343 |
| Common stock issued: | | | | | | | | |
| Dividend Reinvestment and Stock Purchase Plan | 663 | 1 | 19 | - | - | - | - | 20 |
| Share-based awards and options exercises | 342,107 | 341 | 6,242 | - | - | - | - | 6,583 |
| Balance December 31, 2015 | <u>20,931,416</u> | <u>\$ 20,931</u> | <u>\$ 228,814</u> | <u>\$ (58,144)</u> | <u>\$ (412)</u> | <u>\$ 174,522</u> | <u>\$ -</u> | <u>\$ 365,711</u> |
| Net income | - | - | - | - | - | 36,036 | - | 36,036 |
| Tax provision-to-return adjustment related to excess tax benefit on stock-based compensation | - | - | 197 | - | - | - | - | 197 |
| Dividends declared, \$0.82 per share | - | - | - | - | - | (13,989) | - | (13,989) |
| Other comprehensive loss, net of tax benefit of \$1,074 | - | - | - | - | (1,997) | - | - | (1,997) |
| Stock based compensation | - | - | 1,713 | - | - | - | - | 1,713 |
| Retirement of treasury stock | (4,320) | (4) | (39) | 43 | - | - | - | - |
| Net purchase of treasury stock through publicly announced plans | - | - | - | (7,971) | - | - | - | (7,971) |
| Net purchase of treasury stock from stock award and deferred compensation plans | - | - | - | (878) | - | - | - | (878) |
| Common stock issued: | | | | | | | | |
| Common stock issued through share-based awards and options exercises | 183,872 | 184 | 2,121 | - | - | - | - | 2,305 |
| Balance December 31, 2016 | <u>21,110,968</u> | <u>\$ 21,111</u> | <u>\$ 232,806</u> | <u>\$ (66,950)</u> | <u>\$ (2,409)</u> | <u>\$ 196,569</u> | <u>\$ -</u> | <u>\$ 381,127</u> |
| Net income | - | - | - | - | - | 23,016 | - | 23,016 |
| Dividends declared, \$0.86 per share | - | - | - | - | - | (14,818) | - | (14,818) |
| Other comprehensive loss, net of tax benefit of \$659 | - | - | - | - | (1,223) | - | - | (1,223) |
| Reclassification due to the adoption of ASU No. 2018-02 | - | - | - | - | (782) | 782 | - | - |
| Stock-based compensation | - | - | 2,068 | - | - | - | - | 2,068 |
| Form S-4 stock issuance costs | - | - | (233) | - | - | - | - | (233) |
| Retirement of treasury stock | (2,628) | (3) | (23) | 26 | - | - | - | - |
| Net purchase of treasury stock from stock awards for statutory tax withholdings | - | - | - | (1,140) | - | - | - | (1,140) |
| Net purchase of treasury stock for deferred compensation trusts | - | - | - | (115) | - | - | - | (115) |
| Stock warrants assumed in acquisitions | - | - | 1,854 | - | - | - | - | 1,854 |
| Noncontrolling interest assumed in acquisitions | - | - | - | - | - | - | (683) | (683) |
| Common stock issued: | | | | | | | | |
| Shares issued in acquisitions | 3,098,754 | 3,099 | 133,556 | - | - | - | - | 136,655 |
| Common stock issued through share-based awards and options exercises | 152,955 | 153 | 1,458 | - | - | - | - | 1,611 |
| Balance December 31, 2017 | <u>24,360,049</u> | <u>\$ 24,360</u> | <u>\$ 371,486</u> | <u>\$ (68,179)</u> | <u>\$ (4,414)</u> | <u>\$ 205,549</u> | <u>\$ (683)</u> | <u>\$ 528,119</u> |

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

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

A. Nature of Business

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, located in the western suburbs 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 37 full-service branches, eight limited-hour retirement community offices, two limited-service branch, six wealth management offices and a full-service insurance agency located throughout Montgomery, Delaware, Chester, Philadelphia, Berks, and Dauphin counties in Pennsylvania, Mercer and Camden counties of New Jersey, and New Castle county in Delaware. The common stock of the Corporation trades on the NASDAQ Stock Market (“NASDAQ”) under the symbol BMTC.

On December 15, 2017, the merger of Royal Bancshares of Pennsylvania, Inc. (“RBPI”) with and into the Corporation (the “RPBI Merger”), and the merger of Royal Bank America with and into the Bank, were completed. Consideration paid totaled \$138.6 million, comprised of 3,098,754 shares of the Corporation’s common stock, the assumption of 140,224 warrants to purchase BMTC common stock valued at \$1.9 million, \$112 thousand for the cash-out of certain options and \$7 thousand of cash in lieu of fractional shares. The RBPI Merger initially added \$570.4 million of loans, \$121.6 million of investments, \$593.2 million of deposits, and twelve new branches. The acquisition of RBPI expands the Corporation further into Montgomery, Chester, Berks and Philadelphia Counties in Pennsylvania as well as Mercer and Camden Counties in New Jersey.

On May 24, 2017, the acquisition of Harry R. Hirshorn & Company, Inc. (“Hirshorn”), an insurance agency headquartered in the Chestnut Hill section of Philadelphia, was completed. Immediately after the acquisition, Hirshorn was merged into the Bank’s existing insurance subsidiary, Powers Craft Parker and Beard, Inc. The consideration paid by the Bank was \$7.5 million, of which \$5.8 million was paid at closing, with three contingent cash payments, not to exceed \$575 thousand each, to be payable on each of May 24, 2018, May 24, 2019, and May 24, 2020, subject to the attainment of certain targets during the related periods. The acquisition enhanced the Bank’s ability to offer comprehensive insurance solutions to both individual and business clients and continues the strategy of selectively establishing specialty offices in targeted areas.

On April 1, 2015, the acquisition of Robert J. McAllister Agency, Inc. (“RJM”), an insurance brokerage headquartered in Rosemont, Pennsylvania, was completed. Consideration paid totaled \$1.0 million, of which \$500 thousand was paid at closing, \$85 thousand and \$100 thousand of the first two annual payments not to exceed \$100 thousand were paid during the second quarter of 2016 and 2017, respectively and three remaining contingent cash payments, not to exceed \$100 thousand each, will be payable on each of March 31, 2018, March 31, 2019, and March 31, 2020, subject to the attainment of certain revenue targets during the related periods. The acquisition enhanced the Corporation’s ability to offer comprehensive insurance solutions to both individual and business clients.

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 paid totaled \$125.1 million, comprised of 3,878,383 shares (which included fractional shares paid in cash) of the Corporation’s common stock, the assumption of options to purchase Corporation common stock valued at \$2.3 million and \$1.3 million for the cash-out of certain warrants. 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 into a significant portion of Montgomery County, Pennsylvania.

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 regulatory agencies including the Securities and Exchange Commission (“SEC”), Federal Deposit Insurance Corporation (“FDIC”), the Federal Reserve and the Pennsylvania Department of Banking.

B. Basis of Presentation

The accounting policies of the Corporation conform to U.S. generally accepted accounting principles ("GAAP").

The Consolidated Financial Statements include the accounts of the Corporation and its wholly owned subsidiaries. The Corporation's consolidated financial condition and results of operations consist almost entirely of the Bank's financial condition and results of operations. All inter-company transactions and balances have been eliminated.

In preparing the Consolidated Financial Statements, the Corporation is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the balance sheets, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that in 2018, actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Amounts subject to significant estimates are items such as the allowance for loan and lease losses and lending related commitments, goodwill and intangible assets, pension and post-retirement obligations, the fair value of financial instruments and other-than-temporary impairments. Among other effects, such changes could result in future impairments of investment securities, goodwill and intangible assets and establishment of allowances for loan losses and lending-related commitments as well as increased pension and post-retirement expense.

Principles of Consolidation

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

C. Cash and Cash Equivalents

Cash and cash equivalents include cash, interest-bearing and noninterest-bearing amounts due from banks, and federal funds sold. Cash balances required to meet regulatory reserve requirements of the Federal Reserve Board amounted to \$5.8 million and \$10.4 million at December 31, 2017 and December 31, 2016, respectively.

D. Investment Securities

Investment securities which are held for indefinite periods of time, which the Corporation intends to use as part of its asset/liability strategy, or which may be sold in response to changes in credit quality of the issuer, interest rates, changes in prepayment risk, increases in capital requirements, or other similar factors, are classified as available for sale and are carried at fair value. Net unrealized gains and losses for such securities, net of tax, are required to be recognized as a separate component of shareholders' equity and excluded from determination of net income. Gains or losses on disposition are based on the net proceeds and cost of the securities sold, adjusted for the amortization of premiums and accretion of discounts, using the specific identification method.

The Corporation follows ASC 370-10-65-1 "Recognition and Presentation of Other-Than-Temporary Impairments" that provides guidance related to accounting for recognition of other-than-temporary impairment for debt securities and expands disclosure requirements for other-than-temporarily impaired debt and equity securities. Companies are required to record other-than-temporary impairment charges through earnings if they have the intent to sell, or will more likely than not be required to sell, an impaired debt security before a recovery of its amortized cost basis. In addition, companies are required to record other-than-temporary impairment charges through earnings for the amount of credit losses, regardless of the intent or requirement to sell. Credit loss is measured as the difference between the present value of an impaired debt security's cash flows and its amortized cost basis. Non-credit-related write-downs to fair value must be recorded as decreases to accumulated other comprehensive income as long as the Corporation has no intent or it is more likely than not that the Corporation would not be required to sell an impaired security before a recovery of its amortized cost basis. The Corporation did not have any other-than-temporary impairments for 2017, 2016 or 2015.

Investments for which management has the intent and ability to hold until maturity are classified as held-to-maturity and are carried at their amortized cost on the balance sheet. No adjustment for market value fluctuations are recorded related to the held to maturity portfolio.

Investment securities held in trading accounts consist of deferred compensation trust accounts which are invested in listed mutual funds whose diversification is at the discretion of the deferred compensation plan participants. Investment securities held in trading accounts are reported at fair value, with adjustments in fair value reported through income.

E. Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized temporary losses, if any, are recognized through a valuation allowance by charges to income.

F. Portfolio Loans and Leases

The Corporation originates construction, commercial and industrial, commercial mortgage, residential mortgage, home equity and consumer loans to customers primarily in southeastern Pennsylvania as well as small-ticket equipment leases to customers nationwide. Although the Corporation has a diversified loan and lease portfolio, its debtors' ability to honor their contracts is substantially dependent upon the real estate and general economic conditions of the region.

Loans and leases that management has the intention and ability to hold for the foreseeable future or until maturity or pay-off, generally are reported at their outstanding principal balance adjusted for charge-offs, the allowance for loan and lease losses and any deferred fees or costs on originated loans and leases. Interest income is accrued on the unpaid principal balance.

Loan and lease origination fees and loan and lease origination costs are deferred and recognized as an adjustment to the related yield using the interest method.

The accrual of interest on loans and leases is generally discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. Loans and leases are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued, but not collected for loans that are placed on nonaccrual status or charged-off, is charged against interest income. All interest accrued, but not collected, on leases that are placed on nonaccrual status is not charged against interest income until the lease becomes 120 days delinquent, at which point it is charged off. The interest received on these nonaccrual loans and leases is applied to reduce the carrying value of loans and leases. Loans and leases are returned to accrual status when all the principal and interest amounts contractually due are brought current, remain current for at least six months and future payments are reasonably assured. Once a loan returns to accrual status, any interest payments collected during the nonaccrual period which had been applied to the principal balance are reversed and recognized as interest income over the remaining term of the loan.

Certain loans which have reached maturity and have been approved for extension or renewal, but for which all required documents have not been fully executed as of the reporting date, are classified as Administratively Delinquent and are not considered to be delinquent. These loans are reported as current in all disclosures.

Loans acquired in mergers are recorded at their fair values. The difference between the recorded fair value and the principal value is accreted to interest income over the contractual lives of the loans in accordance with ASC 310-20. Certain acquired loans which were deemed to be credit impaired at acquisition are accounted for in accordance with ASC 310-30, as discussed below, in subsection *H* of this footnote.

G. Allowance for Loan and Lease Losses

The allowance for loan and lease losses (the "Allowance") is established through a provision for loan and lease losses (the "Provision") charged as an expense. The principal balances of loans and leases are charged against the Allowance when management believes that the principal is uncollectible. The Allowance is maintained at a level that the Corporation believes is sufficient to absorb estimated potential credit losses.

Management's determination of the adequacy of the Allowance is based on guidance provided in ASC 450 – Contingencies and ASC 310 - Receivables, and involves the periodic evaluations of the loan and lease portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires significant estimates by management. Consideration is given to a variety of factors in establishing these estimates. Quantitative factors in the form of historical net 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, 2017 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, 2017, 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 the specific terms and conditions of loans, changes in underwriting standards, delinquency statistics, industry concentrations and overall exposure of a single customer. In addition, consideration is given to the adequacy of collateral, the dependence on collateral, and the results of internal loan reviews, including a borrower's financial strengths, their expected cash flows, and their access to additional funds.

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 staff as well as external third-party loan review specialists. The result of these reviews is reflected in the risk grade assigned to each loan. For the consumer segments of the loan portfolio, the indicator of credit quality is reflected by the performance/non-performance status of a loan.

[Table of Contents](#)

The evaluation process also considers the impact of competition, current and expected economic conditions, national and international events, the regulatory and legislative environment 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, an additional Provision may be required that might adversely affect the Corporation's results of operations in future periods. In addition, various regulatory agencies, as an integral part of their examination processes, periodically review the adequacy of the Allowance. Such agencies may require the Corporation to record additions to the Allowance based on their judgment of information available to them at the time of their examination.

H. Impaired Loans and Leases

A loan or lease is considered impaired when, based on current information, it is probable that management will be unable to collect the contractually scheduled payments of principal or interest. When assessing impairment, management considers various factors, which include payment status, realizable value of collateral and the probability of collecting scheduled principal and interest payments when due. Loans and leases that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

For loans that indicate possible signs of impairment, which in most cases is based on the performance/non-performance status of the loan, an impairment analysis is conducted based on guidance provided by ASC 310-10. Impairment is measured by (i) the fair value of the collateral, if the loan is collateral-dependent, (ii) the present value of expected future cash flows discounted at the loan's contractual effective interest rate, or (iii), less frequently, the loan's obtainable market price.

In addition to originating loans, the Corporation occasionally acquires loans through mergers or loan purchase transactions. Some of these acquired loans may exhibit deteriorated credit quality that has occurred since origination and, as such, management may not expect to collect all contractual payments. Accounting for these purchased credit-impaired ("PCI") loans is done in accordance with ASC 310-30. The loans are 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 nonaccrual 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, a Provision is recorded in connection with the loan.

I. Troubled Debt Restructurings ("TDR"s)

A TDR occurs when a creditor, for economic or legal reasons related to a borrower's financial difficulties, modifies the original terms of a loan or lease or grants a concession to the borrower that it would not otherwise have granted. A concession may include an extension of repayment terms, a reduction in the interest rate or the forgiveness of principal and/or accrued interest. If the debtor is experiencing financial difficulty and the creditor has granted a concession, the Corporation will make the necessary disclosures related to the TDR. In certain cases, a modification or concession may be made in an effort to retain a customer who is not experiencing financial difficulty. This type of modification is not considered a TDR.

J. Other Real Estate Owned ("OREO")

OREO consists of assets that the Corporation has acquired through foreclosure, by accepting a deed in lieu of foreclosure, or by taking possession of assets that were used as loan collateral. The Corporation reports OREO on the balance sheet as part of other assets, at the lower of cost or fair value less cost to sell, adjusted periodically based on current appraisals. Costs relating to the development or improvement of assets, as well as the costs required to obtain legal title to the property, are capitalized, while costs related to holding the property are charged to expense as incurred.

K. Other Investments and Equity Stocks Without a Readily Determinable Fair Value

Other investments include Community Reinvestment Act ("CRA") investments and equity stocks without a readily determinable fair value. The Corporation's investments in equity stocks include those issued by the Federal Home Loan Bank of Pittsburgh ("FHLB"), the Federal Reserve Bank ("FRB") and Atlantic Central Bankers Bank. The Corporation is required to hold FHLB stock as a condition of its borrowing funds from the FHLB. As of December 31, 2017, the carrying value of the Corporation's FHLB stock was \$20.1 million. In addition, the Corporation is required to hold FRB stock based on the Corporation's capital. As of December 31, 2017, the carrying value of the Corporation's FRB stock was \$6.9 million. Ownership of FHLB and FRB stock is restricted and there is no market for these securities. For further information on the FHLB stock, see Note 10 – "Short-Term Borrowings and Long-Term FHLB Advances".

L. Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation and predetermined rent are recorded using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the expected lease term or the estimated useful lives, whichever is shorter.

M. Pension and Postretirement Benefit Plan

As of December 31, 2017, the Corporation had two non-qualified defined-benefit supplemental executive retirement plans and a postretirement benefit plan as discussed in Note 17 – “Pension and Postretirement Benefit Plans”. Net pension expense related to the defined-benefit consists of service cost, interest cost, return on plan assets, amortization of prior service cost, amortization of transition obligations and amortization of net actuarial gains and losses. Prior to December 31, 2015, the Corporation had a qualified pension plan which was settled on December 31, 2015. As it relates to the costs associated with the post-retirement benefit plan, the costs are recognized as they are incurred.

N. Bank Owned Life Insurance (“BOLI”)

BOLI is recorded at its cash surrender value. Income from BOLI is tax-exempt and included as a component of non-interest income.

O. Derivative Financial Instruments

The Corporation recognizes all derivative financial instruments on its balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. The Corporation enters into interest rate swaps that allow commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Corporation originates variable-rate loans with customers in addition to interest rate swap agreements, which serve to effectively swap the customers' variable-rate loans into fixed-rate loans. The Corporation then enters into corresponding swap agreements with swap dealer counterparties to economically hedge its exposure on the variable and fixed components of the customer agreements. The interest rate swaps with both the customers and third parties are not designated as hedges under FASB ASC 815 and are marked to market through earnings. As the interest rate swaps are structured to offset each other, changes to the underlying benchmark interest rates considered in the valuation of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit quality variations between counterparties, which may impact earnings as required by FASB ASC 820.

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

If a derivative has qualified as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings immediately. To determine fair value, management uses valuations obtained from a third party which utilizes a pricing model that incorporates assumptions about market conditions and risks that are current as of the reporting date. Management reviews, annually, the inputs utilized by its independent third-party valuation organization.

The Corporation may use interest-rate swap agreements to modify the interest rate characteristics from variable to fixed or fixed to variable in order to reduce the impact of interest rate changes on future net interest income. If present, the Corporation accounts for its interest-rate swap contracts in cash flow hedging relationships by establishing and documenting the effectiveness of the instrument in offsetting the change in cash flows of assets or liabilities that are being hedged. To determine effectiveness, the management performs an analysis to identify if changes in fair value or cash flow of the derivative correlate to the equivalent changes in the forecasted interest receipts or payments related to a specified hedged item. Recorded amounts related to interest-rate swaps are included in other assets or liabilities. The change in fair value of the ineffective part of the instrument would need to be charged to the Statement of Income, potentially causing material fluctuations in reported earnings in the period of the change relative to comparable periods. In a fair value hedge, the fair value of the interest rate swap agreements and changes in the fair value of the hedged items are recorded in the Corporation's consolidated balance sheets with the corresponding gain or loss being recognized in current earnings. The difference between changes in the fair values of interest rate swap agreements and the hedged items represents hedge ineffectiveness and is recorded in net interest income in the statement of income. Management performs an assessment, both at the inception of the hedge and quarterly thereafter, to determine whether these derivatives are highly effective in offsetting changes in the value of the hedged items. In December 2012, the Corporation entered into a \$15 million forward-starting interest rate swap in order to hedge the cash flows of a \$15 million floating-rate FHLB borrowing. On November 30, 2015, the start date of the swap, the Corporation elected to terminate the swap.

P. Accounting for Stock-Based Compensation

Stock-based compensation cost is measured at the grant date, based on the fair value of the award and is recognized as an expense over the vesting period.

[Table of Contents](#)

All share-based payments, including grants of stock options, restricted stock awards and performance-based stock awards, are recognized as compensation expense in the statement of income at their fair value. The fair value of stock option grants is determined using the Black-Scholes pricing model which considers the expected life of the options, the volatility of our stock price, risk-free interest rate and annual dividend yield. The fair value of the restricted stock awards and performance-based awards whose performance is measured based on an internally produced metric is based on their closing price on the grant date, while the fair value of the performance-based stock awards which use an external measure, such as total stockholder return, is based on their grant-date market value adjusted for the likelihood of attaining certain pre-determined performance goals and is calculated by utilizing a Monte Carlo Simulation model.

Q. Earnings per Common Share

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

R. Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Corporation recognizes the benefit of a tax position only after determining that the Corporation would more-likely-than-not sustain the position following an examination. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the Consolidated Financial Statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon settlement with the relevant tax authority. Management applies these criteria to tax positions for which the statute of limitations remains open.

S. Revenue Recognition

With the exception of nonaccrual loans and leases, the Corporation recognizes all sources of income on the accrual method.

Additional information relating to wealth management fee revenue recognition follows:

The Corporation earns wealth management fee revenue from a variety of sources including fees from trust administration and other related fiduciary services, custody, investment management and advisory services, employee benefit account and IRA administration, estate settlement, tax service fees, shareholder service fees and brokerage. These fees are generally based on asset values and fluctuate with the market. Some revenue is not directly tied to asset value but is based on a flat fee for services provided. For many of our revenue sources, amounts are not received in the same accounting period in which they are earned. However, each source of wealth management fees is recorded on the accrual method of accounting.

The most significant portion of the Corporation's wealth management fees is derived from trust administration and other related services, custody, investment management and advisory services, and employee benefit account and IRA administration. These fees are generally billed monthly, in arrears, based on the market value of assets at the end of the previous billing period. A smaller number of customers are billed in a similar manner, but on a quarterly or annual basis and some revenues are not based on market values.

The balance of the Corporation's wealth management fees includes estate settlement fees and tax service fees, which are recorded when the related service is performed and asset management and brokerage fees on non-depository investment products, which are received one month in arrears, based on settled transactions, but are accrued in the month the settlement occurs.

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

Insurance revenue is primarily related to commissions earned on insurance policies and is recognized over the related policy coverage period.

T. Mortgage Servicing

A portion of the residential mortgage loans originated by the Corporation is sold to third parties; however the Corporation often retains the servicing rights related to these loans. A fee, usually based on a percentage of the outstanding principal balance of the loan, is received in return for these services. Gains on the sale of these loans are based on the specific identification method.

[Table of Contents](#)

An intangible asset, referred to as mortgage servicing rights ("MSR")s is recognized when a loan's servicing rights are retained upon sale of a loan. These MSRs amortize to non-interest expense in proportion to, and over the period of, the estimated future net servicing life of the underlying loans.

MSRs are evaluated quarterly for impairment based upon the fair value of the rights as compared to their amortized cost. Impairment is determined by stratifying the MSRs by predominant characteristics, such as interest rate and terms. Fair value is determined based upon discounted cash flows using market-based assumptions. Impairment is recognized on the income statement to the extent the fair value is less than the capitalized amount for the stratum. A valuation allowance is utilized to record temporary impairment in MSRs. Temporary impairment is defined as impairment that is not deemed permanent. Permanent impairment is recorded as a reduction of the MSR and is not reversed.

U. Goodwill and Intangible Assets

The Corporation accounts for goodwill and intangible assets in accordance with ASC 350, "Intangibles – Goodwill and Other." The amount of goodwill initially recorded is based on the fair value of the acquired entity at the time of acquisition. Management performs goodwill and intangible assets impairment testing annually, as of October 31, or when events occur or circumstances change that would more likely than not reduce the fair value of the acquisition or investment. Prior to October 31, 2016, management had performed the goodwill and intangible assets impairment testing as of December 31. During 2016, management made a voluntary change in the method of applying an accounting principle related to the timing of the annual goodwill impairment assessment from December 31 to October 31. Management made this decision based on the time intensive nature of the goodwill impairment assessment. Management does not consider this change in impairment testing date to be a material change in application of an accounting principle. Goodwill impairment is tested on a reporting unit level. The Corporation currently has three reporting units: Banking, Wealth Management and Insurance. As of December 31, 2017, the Insurance reporting unit did not meet the quantitative thresholds for separate disclosure as an operating segment and is therefore reported as a component of the Wealth Management segment, based on its internal reporting structure. While the Insurance reporting unit did not meet the threshold for reporting as a separate operating segment, for goodwill testing, the Insurance segment was tested for impairment. An operating segment is a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Management's impairment testing methodology is consistent with the methodology prescribed in ASC 350. Intangible assets include core deposit intangibles, customer relationships, trade names, a domain name, and non-competition agreements. The customer relationships, non-competition agreement, and core deposit intangibles are amortized over the estimated useful lives of the assets and are evaluated for impairment annually. The trade names, except for Hirshorn Boothby which has a three-year life, and the domain name intangibles have indefinite lives and are evaluated for impairment annually.

V. Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

W. Recent Accounting Pronouncements

The following Financial Accounting Standards Board ("FASB") Accounting Standards Updates ("ASUs") are divided into pronouncements which have been adopted by the Corporation since January 1, 2017, and those which are not yet effective and have been evaluated or are currently being evaluated by management as of December 31, 2017.

Adopted Pronouncements:

FASB ASU 2017-08 (Subtopic 310-20), "Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities"

Issued in March 2017, ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendment requires the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Corporation early adopted this ASU as of October 1, 2017. Adoption of this ASU did not have an impact on our Consolidated Financial Statements and related disclosures as management determined that it follows the guidance related to premium amortization on callable debt securities.

FASB ASU 2018-02 - Income Statement – Reporting Comprehensive Income (Topic 220): “Reclassification of Certain Tax Effects from Other Comprehensive Income”

Issued in February 2018, ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018) and will improve the usefulness of information reported to financial statement users. The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period for public businesses for reporting periods for which financial statements have not yet been issued. The Corporation early adopted this ASU as of January 1, 2017 and elected to reclassify income tax effects related to net unrealized losses on available for sale investment securities and unrealized losses on nonqualified pension liabilities. The reclassification of income tax effects associated with the net unrealized losses on available for sale investment securities and unrealized losses on nonqualified pension liabilities totaled \$507 thousand and \$275 thousand, respectively. The net effect of the reclassifications was a \$782 thousand increase to both retained earnings and accumulated other comprehensive loss.

Pronouncements Not Yet Effective:

FASB ASU 2014-09 (Topic 606), “Revenue from Contracts with Customers”

Issued in May 2014, ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers using a five-step model that requires entities to exercise judgment when considering the terms of the contracts. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. This amendment defers the effective date of ASU 2014-09 by one year. In March 2016, the FASB issued ASU 2016-08, “Principal versus Agent Considerations (Reporting Gross versus Net),” which amends the principal versus agent guidance and clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. In addition, the FASB issued ASU Nos. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers and 2016-12, Narrow-Scope Improvements and Practical Expedients, both of which provide additional clarification of certain provisions in Topic 606. These Accounting Standards Codification (“ASC”) updates are effective for annual reporting periods beginning after December 15, 2017, but early adoption is permitted. Early adoption is permitted only as of annual reporting periods after December 15, 2016. The standard permits the use of either the retrospective or retrospectively with the cumulative effect transition method.

Because the ASU does not apply to revenue associated with leases and financial instruments (including loans and securities), management does not expect the new guidance to have a material impact on the elements of its Consolidated Statement of Income most closely associated with leases and financial instruments (such as interest income, interest expense, and net (loss) gain on sale of investment securities). The review is on-going, however our preliminary evaluation of other revenue streams that are within the scope of the new guidance suggests that adoption of this guidance is not expected to have a material effect on our Consolidated Statement of Income. The Corporation will adopt this ASU in the first quarter of 2018 with no impact to our Consolidated Financial Statements. Management’s ongoing implementation efforts include evaluating and developing the additional quantitative and qualitative disclosures required upon the adoption of the new guidance, if applicable.

FASB ASU 2017-04 (Topic 350), “Intangibles – Goodwill and Others”

Issued in January 2017, ASU 2017-04 simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. ASU 2017-04 is effective for annual periods beginning after December 15, 2019 including interim periods within those periods. Management does not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements and related disclosures.

FASB ASU 2017-01 (Topic 805), “Business Combinations”

Issued in January 2017, ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 is effective for annual periods beginning after December 15, 2017 including interim periods within those periods. The Corporation will adopt this ASU in the first quarter of 2018. Management does not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements and related disclosures.

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

Issued in August 2016, ASU 2016-15 provides guidance on eight specific cash flow issues and their disclosure in the consolidated statements of cash flows. The issues addressed include debt prepayment, settlement of zero-coupon debt, contingent consideration in business combinations, proceeds from settlement of insurance claims, proceeds from settlement of BOLI, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for the annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted. The Corporation will adopt this ASU in the first quarter of 2018. Management does not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements and related disclosures.

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

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

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

FASB ASU 2016-02 (Topic 842), “Leases”

Issued in February 2016, ASU 2016-02 revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new lease guidance also simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. ASU 2016-02 is effective for the first interim period within annual periods beginning after December 15, 2018, with early adoption permitted. The standard is required to be adopted using the modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Management has begun to inventory the Corporation’s various leases to evaluate the effect that this ASU will have on our consolidated financial statements and related disclosures. Management is aware that the adoption of this ASU will impact the Corporation’s balance sheet for the recording of assets and liabilities for operating leases. Any additional assets recorded as a result of implementation will have a negative impact on the Corporation and Bank capital ratios under current regulatory guidance.

FASB ASU 2016-01 (Subtopic 825-10), “Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities”

Issued in January 2016, ASU 2016-01 provides that equity investments will be measured at fair value with changes in fair value recognized in net income. When fair value is not readily determinable an entity may elect to measure the equity investment at cost, minus impairment, plus or minus any change in the investment’s observable price. For financial liabilities that are measured at fair value, the amendment requires an entity to present separately, in other comprehensive income, any change in fair value resulting from a change in instrument-specific credit risk. ASU 2016-01 will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Entities may apply this guidance on a prospective or retrospective basis. The Corporation will adopt this ASU in the first quarter of 2018 on a prospective basis. Upon adoption, the Corporation will record a cumulative-effect adjustment of \$296 thousand by reclassifying the amount of net unrealized gain related to our available-for-sale equity securities portfolio as of December 31, 2017 from other comprehensive loss to retained earnings.

Management is evaluating the amendments related to equity securities without readily determinable fair values (except for FHLB, FRB, and Atlantic Central Bankers Bank stock, which are outside of the scope of this ASU), but does not expect it to have a material impact on our consolidated financial statements and related disclosures. Additionally, for purposes of disclosing the fair value of loans carried at amortized cost, we are evaluating our valuation methods to determine the necessary changes to present fair value disclosures based on “exit price” as required by this update. Accordingly, the fair value amounts disclosed for such loans may change upon adoption.

FASB ASU 2017-07 - Compensation - Retirement Benefits (Topic 715): “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”

Issued in March 2017, ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset). The amendments in this update are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Corporation will adopt this ASU in the first quarter of 2018.

Upon adoption, the components of net periodic benefit cost other than the service cost component will be reclassified from “*Employee benefits*” to “*Other operating expenses*” in the Consolidated Statements of Income. Since both “*Employee benefits*” and “*Other operating expenses*” line items of these income statement line items are within “*Non-interest expenses*”, total “*Non-interest expenses*” will not change, nor will there be any change in “*Net income*.” The components of net periodic benefit cost are currently disclosed in Note 17 – “Pension and Postretirement Benefit Plans” in the accompanying Notes to consolidated financial statements found in this Annual Report on Form 10-K. Additionally, the Corporation does not currently capitalize any components of its net periodic benefit costs. Management does not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements and related disclosures.

Note 2 - Business Combinations

Royal Bancshares of Pennsylvania, Inc.

On December 15, 2017, the previously announced merger of Royal Bancshares of Pennsylvania, Inc. with and into the Corporation, and the merger of Royal Bank America with and into the Bank, as contemplated by the Agreement and Plan of Merger, by and between RBPI and the Corporation, dated as of January 30, 2017 (the “Agreement”) were completed. In accordance with the Agreement, the aggregate share consideration paid to RBPI shareholders consisted of 3,098,754 shares of the Corporation’s common stock. Shareholders of RBPI received 0.1025 shares of Corporation common stock for each share of RBPI Class A common stock and 0.1179 shares of Corporation common stock for each share of RBPI Class B common stock owned as of the effective date of the RBPI Merger, with cash-in-lieu of fractional shares totaling \$7 thousand. Holders of in-the-money options to purchase RBPI Class A common stock received cash totaling \$112 thousand. In addition, 1,368,040 warrants to purchase Class A common stock of RBPI, valued at \$1.9 million, were converted to 140,224 warrants to purchase Corporation common stock. In accordance with the acquisition method of accounting, assets acquired and liabilities assumed were preliminarily adjusted to their fair values as of the date of the RBPI Merger. The excess of consideration paid above the fair value of net assets acquired was recorded as goodwill. This goodwill is not amortizable nor is it deductible for income tax purposes.

[Table of Contents](#)

In connection with the RBPI Merger, the consideration paid and the estimated fair value of identifiable assets acquired and liabilities assumed as of the date of the RBPI Merger are summarized in the following table:

(dollars in thousands)

| Consideration paid: | |
|--|------------------|
| Common shares issued (3,098,754) | \$ 136,655 |
| Cash in lieu of fractional shares | 7 |
| Cash-out of certain options | 112 |
| Fair value of warrants assumed | 1,853 |
| Value of consideration | 138,627 |
| Assets acquired: | |
| Cash and due from banks | 17,092 |
| Investment securities available for sale | 121,587 |
| Loans | 570,373 |
| Premises and equipment | 8,264 |
| Deferred income taxes | 33,135 |
| Bank-owned life insurance | 16,550 |
| Core deposit intangible | 4,670 |
| Favorable lease asset | 566 |
| Other assets | 14,487 |
| Total assets | 786,724 |
| Liabilities assumed: | |
| Deposits | 593,172 |
| FHLB and other long-term borrowings | 59,568 |
| Short-term borrowings | 15,000 |
| Junior subordinated debentures | 21,416 |
| Unfavorable lease liability | 322 |
| Other liabilities | 31,381 |
| Total liabilities | 720,859 |
| Net assets acquired | 65,865 |
| Goodwill resulting from acquisition of RBPI | \$ 72,762 |

Provisional Estimates of Fair Value of Certain Assets Acquired in the RBPI Merger

As of December 31, 2017, the accounting for the estimates of fair value for certain loans acquired in the RBPI Merger is incomplete. The Corporation is in the process of obtaining new information that will allow management to better estimate fair values that existed as of December 15, 2017. When this information is obtained, management anticipates an adjustment to the provisional fair value assigned to certain acquired loans. This adjustment will result in corresponding adjustments to goodwill and net deferred tax asset. The adjustments will be recorded in the period in which the new information is obtained and reviewed.

Methods Used to Fair Value Assets and Liabilities

The following is a description of the valuation methodologies used to estimate the fair values of major categories of assets acquired and liabilities assumed. In many cases, determining the fair value of the acquired assets and assumed liabilities required management to estimate cash flows expected from those assets and liabilities and to discount those cash flows at appropriate rates of interest. This required the utilization of significant estimates and management judgment in accounting for the RBPI Merger.

Cash and due from banks: The estimated fair values of cash and due from banks approximate their stated value.

Investment securities available-for-sale: The estimated fair values of the investment securities available for sale, comprised of obligations of the U.S. government and agencies, state and political subdivisions, mortgage-backed securities and collateralized mortgage obligations, were based on actual sales of the investments securities immediately subsequent to the close of the RBPI Merger. No gains or losses were recorded resulting from the sales.

Loans held for investment: The acquisition resulted in loans acquired with and without evidence of credit quality deterioration. There was no carryover related allowance for loan and lease losses.

[Table of Contents](#)

The acquired loan portfolio was valued based on current guidance which defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Level 3 inputs were utilized to value the portfolio and included the use of present value techniques employing cash flow estimates and incorporated assumptions that marketplace participants would use in estimating fair values. In instances where reliable market information was not available, management used assumptions in an effort to determine reasonable fair value. Specifically, management utilized three separate fair value analyses which a market participant would employ in estimating the total fair value adjustment. The three separate fair valuation methodologies used were: 1) interest rate loan fair value analysis; 2) general credit fair value analysis; and 3) specific credit fair value analysis.

For loans acquired without evidence of credit quality deterioration, management prepared the interest rate loan fair value analysis. Loans were grouped by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various external data sources and reviewed by management for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value adjustment. Additionally, a general credit fair value adjustment was calculated using a two-part general credit fair value analysis: 1) expected lifetime losses; and 2) estimated fair value adjustment for qualitative factors. The expected lifetime losses were calculated using an average of historical losses of the RBPI. The adjustment related to qualitative factors was impacted by general economic conditions and the risk related to a lack of specific familiarity with RBPI's underwriting process. RBPI's loan portfolio without evidence of credit quality deterioration received a fair value discount of \$730 thousand to reflect an interest rate fair value adjustment and a fair value discount of \$13.1 million to reflect the general credit risk of the loan portfolio. The adjustment will be substantially recognized as interest income on a level yield basis over the remaining lives of the underlying loans.

For loans acquired with evidence of credit quality deterioration management prepared a specific credit fair value adjustment. Management reviewed the acquired loan portfolio for loans meeting the definition of an impaired loan with deteriorated credit quality. Loans meeting this definition were reviewed by comparing the contractual cash flows to expected collectible cash flows. The aggregate expected cash flows less the acquisition date fair value results in an accretable yield amount. The accretable yield amount will be recognized over the life of the loans or over the recovery period of the underlying collateral on a level yield basis as an adjustment to yield. In certain cases, the appraisal of the underlying collateral may have not been current and new appraisals are underway. Once the current appraisals are finalized and accurately reflect the fair value of the collateral as of December 15, 2017, the fair values of the loans will be finalized. Any disposals of loans, including sales of loans, payments in full or foreclosures result in the derecognition of the loan at its carrying value with differences in actual results reflected in interest income.

At the acquisition date, the Corporation recorded a nonaccretable difference of \$13.0 million. The aggregate expected cash flows less the acquisition date fair value results in an accretable yield amount of \$2.3 million.

The following table summarizes the acquired impaired loans and leases as of December 15, 2017 resulting from the RBPI Merger:

(dollars in thousands)

| | | |
|--|----|----------|
| Contractually required principal and interest payments | \$ | 36,138 |
| Contractual cash flows not expected to be collected (nonaccretable difference) | | (13,042) |
| Cash flows expected to be collected | | 23,096 |
| Interest component of expected cash flows (accretable yield) | | (2,319) |
| Fair value of loans acquired with deterioration of credit quality | \$ | 20,777 |

Bank premises - owned: The Corporation acquired five owned properties and obtained appraisals from an independent real estate appraiser. A fair value adjustment was recorded on the owned properties, increasing their carrying value by \$2.3 million.

Core deposit intangible: Core deposit intangible represents the value assigned to demand, interest checking, money market and savings accounts acquired as part of the RBPI Merger. The core deposit intangible fair value represents the future economic benefit, including the present value of future tax benefits, of the potential cost savings from acquiring core deposits as part of an acquisition compared to the cost of alternative funding sources and was valued utilizing Level 3 inputs. The core deposit intangible of \$4.7 million will be amortized using the sum of the years digits method over an estimated life of 10 years.

Deposits: The fair values of demand and saving deposits, with no stated maturities, approximated the carrying value as these accounts are payable on demand. The fair values of time deposits with fixed maturities were estimated by discounting the final maturity using current market interest rate for similar instruments. A fair value premium of \$2.5 million was recognized and will be recognized as a reduction to interest expense using a level yield amortization method over the life of the time deposit. The fair value of time deposits was determined using Level 2 inputs in the fair value hierarchy.

[Table of Contents](#)

Junior subordinated debentures: The fair value of junior subordinated debentures was determined by present valuing the expected cash flows using current market rates for similar instruments. A fair value discount of \$4.4 million was recognized and will be recognized as an increase to interest expense on a level-yield basis over the remaining life of the debentures. The fair value of junior subordinated debentures was determined using Level 2 inputs in the fair value hierarchy.

Deferred tax assets and liabilities: Deferred tax assets and liabilities were established for purchase accounting fair value adjustments as the future amortization/accretion of these adjustments represent temporary differences between book income and taxable income. The federal income tax rate utilized to determine the deferred tax assets and liabilities was the enacted rate as of December 15, 2017.

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

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

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

(dollars in thousands)

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

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

[Table of Contents](#)

Pro Forma Income Statements (unaudited)

The following pro forma income statements for the twelve months ended December 31, 2017, 2016 and 2015 present the pro forma results of operations of the combined institution (RBPI and the Corporation) as if the RBPI Merger occurred on January 1, 2015, January 1, 2016 and January 1, 2017, respectively. The pro forma income statement adjustments are limited to the effects of fair value mark amortization and accretion and intangible asset amortization. No cost savings or additional merger expenses have been included in the pro forma results of operations. Due to the immaterial contribution to net income of the RJM and Hirshorn acquisitions, which occurred during the three-year period shown in the table, the pro forma effects of these acquisitions are excluded.

| <i>(dollars in thousands)</i> | Twelve Months Ended December 31, | | |
|---|----------------------------------|------------------|------------------|
| | 2017 | 2016 | 2015 |
| Total interest income | \$ 169,677 | \$ 155,798 | \$ 143,926 |
| Total interest expense | 20,113 | 17,134 | 13,963 |
| Net interest income | 149,564 | 138,664 | 129,963 |
| Provision for loan and lease losses | 3,454 | 5,568 | 3,648 |
| Net interest income after provision for loan and lease losses | 146,110 | 133,069 | 126,315 |
| Total non-interest income | 61,423 | 58,275 | 58,898 |
| Total non-interest expenses* | 140,853 | 124,358 | 149,791 |
| Income before income taxes | 66,680 | 67,013 | 35,422 |
| Income tax expense | 39,871 | 22,461 | 12,531 |
| Net income | <u>\$ 26,809</u> | <u>\$ 44,552</u> | <u>\$ 22,891</u> |
| Per share data**: | | | |
| Weighted-average basic shares outstanding | 20,248,879 | 19,958,377 | 20,587,079 |
| Dilutive shares | 257,591 | 168,499 | 267,996 |
| Adjusted weighted-average diluted shares | 20,506,470 | 20,126,876 | 20,855,075 |
| Basic earnings per common share | <u>\$ 1.32</u> | <u>\$ 2.23</u> | <u>\$ 1.11</u> |
| Diluted earnings per common share | <u>\$ 1.31</u> | <u>\$ 2.21</u> | <u>\$ 1.10</u> |

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

** Assumes that the shares of RBPI common stock outstanding as of December 31, 2017 were outstanding for the full twelve month periods ended December 31, 2017, 2016, and 2015, respectively.

Due Diligence, Merger-Related and Merger Integration Expenses

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

| <i>(dollars in thousands)</i> | Twelve Months Ended December 31, | | |
|---|----------------------------------|-------------|-----------------|
| | 2017 | 2016 | 2015 |
| Advertising | \$ 180 | \$ — | \$ 162 |
| Employee Benefits | 21 | — | 258 |
| Furniture, fixtures, and equipment | 109 | — | 159 |
| Information technology | 837 | — | 1,168 |
| Professional fees | 3,160 | — | 2,471 |
| Salaries and wages | 1,285 | — | 1,868 |
| Other | 512 | — | 584 |
| Total due diligence, and merger-related and merger integration expenses | <u>\$ 6,104</u> | <u>\$ —</u> | <u>\$ 6,670</u> |

Note 3 - Goodwill and Intangible Assets

The following table presents activity in the Corporation's goodwill by its reporting units and finite-lived and indefinite-lived intangible assets, other than MSRs, for the twelve months ended December 31, 2017 and 2016:

| <i>(dollars in thousands)</i> | Balance December 31, 2016 | Additions | Amortization | Balance December 31, 2017 | Amortization Period |
|-------------------------------|--------------------------------------|------------------|---------------------|--------------------------------------|--------------------------------|
| Goodwill – Wealth | \$ 20,412 | \$ — | \$ — | \$ 20,412 | Indefinite |
| Goodwill – Banking | 80,783 | 72,762 | — | 153,545 | Indefinite |
| Goodwill – Insurance | 3,570 | 2,362 | — | 5,932 | Indefinite |
| Total Goodwill | \$ 104,765 | \$ 75,124 | \$ — | \$ 179,889 | |
| Core deposit intangible | \$ 3,447 | \$ 4,670 | \$ (737) | \$ 7,380 | 10 Years |
| Customer relationships | 13,056 | 2,672 | (1,555) | 14,173 | 10 to 20 Years |
| Non-compete agreements | 1,634 | 41 | (356) | 1,319 | 5 to 10 Years |
| Trade name | 2,165 | 195 | (38) | 2,322 | 3 years to Indefinite |
| Domain name | — | 151 | — | 151 | Indefinite |
| Favorable lease assets | 103 | 566 | (48) | 621 | 1 to 16 Years |
| Total Intangible Assets | \$ 20,405 | \$ 8,295 | \$ (2,734) | \$ 25,966 | |
| Grand Total | \$ 125,170 | \$ 83,419 | \$ (2,734) | \$ 205,855 | |

| <i>(dollars in thousands)</i> | Balance December 31, 2015 | Additions | Amortization | Balance December 31, 2016 | Amortization Period |
|-------------------------------|--------------------------------------|------------------|---------------------|--------------------------------------|--------------------------------|
| Goodwill – Wealth | \$ 20,412 | \$ — | \$ — | \$ 20,412 | Indefinite |
| Goodwill – Banking | 80,783 | — | — | 80,783 | Indefinite |
| Goodwill – Insurance | 3,570 | — | — | 3,570 | Indefinite |
| Total Goodwill | \$ 104,765 | \$ — | \$ — | \$ 104,765 | |
| Core deposit intangible | \$ 4,272 | \$ — | \$ (825) | \$ 3,447 | 10 years |
| Customer relationships | 14,384 | — | (1,328) | 13,056 | 10 to 20 years |
| Non-compete agreements | 2,932 | — | (1,298) | 1,634 | 5 to 10 years |
| Trade name | 2,165 | — | — | 2,165 | Indefinite |
| Favorable lease assets | 150 | — | (47) | 103 | 17 to 75 months |
| Total Intangible Assets | \$ 23,903 | \$ — | \$ (3,498) | \$ 20,405 | |
| Grand total | \$ 128,668 | \$ — | \$ (3,498) | \$ 125,170 | |

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

[Table of Contents](#)

Amortization expense on finite-lived intangible assets was \$2.7 million, \$3.5 million, and \$3.8 million for the twelve months ended December 31, 2017, 2016, and 2015, respectively. The estimated aggregate amortization expense related to finite-lived intangible assets for each of the five succeeding fiscal years ending December 31 is:

| <i>(dollars in thousands)</i> | Fiscal Year Amount | |
|-------------------------------|---------------------------|--------|
| Fiscal year ending | | |
| 2018 | \$ | 3,520 |
| 2019 | \$ | 3,218 |
| 2020 | \$ | 2,980 |
| 2021 | \$ | 2,764 |
| Thereafter | \$ | 11,167 |

Note 4 - Investment Securities

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

As of December 31, 2017

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

As of December 31, 2016

| <i>(dollars in thousands)</i> | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---------------------------|---------------------------------------|--|-------------------|
| U.S. Treasury securities | \$ 200,094 | \$ 3 | \$ — | \$ 200,097 |
| Obligations of the U.S. government and agencies | 83,111 | 167 | (1,080) | 82,198 |
| Obligations of state and political subdivisions | 33,625 | 26 | (121) | 33,530 |
| Mortgage-backed securities | 185,997 | 1,260 | (1,306) | 185,951 |
| Collateralized mortgage obligations | 49,488 | 108 | (902) | 48,694 |
| Other investment securities | 16,575 | 105 | (154) | 16,526 |
| Total | \$ 568,890 | \$ 1,669 | \$ (3,563) | \$ 566,996 |

The following tables present the aggregate amount of gross unrealized losses as of December 31, 2017 and December 31, 2016 on *available for sale* investment securities classified according to the amount of time those securities have been in a continuous unrealized loss position:

As of December 31, 2017

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

As of December 31, 2016

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| <i>(dollars in thousands)</i> | | | | | | |
| Obligations of the U.S. government and agencies | \$ 62,211 | \$ (1,080) | \$ — | \$ — | \$ 62,211 | \$ (1,080) |
| Obligations of state and political subdivisions | 24,482 | (121) | — | — | 24,482 | (121) |
| Mortgage-backed securities | 101,433 | (1,306) | — | — | 101,433 | (1,306) |
| Collateralized mortgage obligations | 35,959 | (902) | — | — | 35,959 | (902) |
| Other investment securities | 2,203 | (93) | 11,895 | (61) | 14,098 | (154) |
| Total | \$ 226,288 | \$ (3,502) | \$ 11,895 | \$ (61) | \$ 238,183 | \$ (3,563) |

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

As of December 31, 2017, and 2016, securities having a fair value of \$126.2 million and \$119.4 million, respectively, were specifically pledged as collateral for public funds, trust deposits, the FRB discount window program, FHLB borrowings and other purposes. The FHLB has a blanket lien on non-pledged, mortgage-related loans and securities as part of the Corporation's borrowing agreement with the FHLB.

The amortized cost and fair value of *available for sale* investment and mortgage-related securities *available for sale* as of December 31, 2017 and 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | December 31, 2017 | | December 31, 2016 | |
|--|-------------------|------------|-------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| <i>(dollars in thousands)</i> | | | | |
| Investment securities ¹ : | | | | |
| Due in one year or less | \$ 211,019 | \$ 211,019 | \$ 213,876 | \$ 213,885 |
| Due after one year through five years | 126,452 | 124,797 | 40,335 | 40,270 |
| Due after five years through ten years | 23,147 | 22,804 | 45,840 | 44,914 |
| Due after ten years | 15,439 | 15,421 | 18,079 | 18,055 |
| Subtotal | 376,057 | 374,041 | 318,130 | 317,124 |
| Mortgage-related securities ¹ | 313,554 | 311,652 | 235,485 | 234,644 |
| Mutual funds with no stated maturity | 3,213 | 3,509 | 15,275 | 15,228 |
| Total | \$ 692,824 | \$ 689,202 | \$ 568,890 | \$ 566,996 |

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

Proceeds from the sale of *available for sale* investment securities totaled \$130.9 million, \$276 thousand, and \$64.9 million for the twelve months ended December 31, 2017, 2016 and 2015, respectively. Net gain (loss) on sale of *available for sale* investment securities totaled \$101 thousand, \$(77) thousand, and \$931 thousand for the twelve months ended December 31, 2017, 2016, and 2015, respectively.

[Table of Contents](#)

The amortized cost and fair value of investment securities *held to maturity* as of December 31, 2017 and 2016 are as follows:

As of December 31, 2017

| <i>(dollars in thousands)</i> | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|-------------------------------|-------------------|------------------------------|-------------------------------|-----------------|
| Mortgage-backed securities | \$ 7,932 | \$ 5 | \$ (86) | \$ 7,851 |
| Total | <u>\$ 7,932</u> | <u>\$ 5</u> | <u>\$ (86)</u> | <u>\$ 7,851</u> |

As of December 31, 2016

| <i>(dollars in thousands)</i> | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|-------------------------------|-------------------|------------------------------|-------------------------------|-----------------|
| Mortgage-backed securities | \$ 2,879 | \$ — | \$ (61) | \$ 2,818 |
| Total | <u>\$ 2,879</u> | <u>\$ —</u> | <u>\$ (61)</u> | <u>\$ 2,818</u> |

The following tables present the aggregate amount of gross unrealized losses as of December 31, 2017 and December 31, 2016 on *held to maturity* securities classified according to the amount of time those securities have been in a continuous unrealized loss position:

As of December 31, 2017

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

As of December 31, 2016

| <i>(dollars in thousands)</i> | Less than 12 Months | | 12 Months or Longer | | Total | |
|-------------------------------|------------------------|-------------------|------------------------|-------------------|-----------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mortgage-backed securities | \$ 2,818 | \$ (61) | \$ — | \$ — | \$ 2,818 | \$ (61) |
| Total | <u>\$ 2,818</u> | <u>\$ (61)</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 2,818</u> | <u>\$ (61)</u> |

The amortized cost and fair value of *held to maturity* investment securities as of December 31, 2017 and 2016, by contractual maturity, are shown below:

| <i>(dollars in thousands)</i> | December 31, 2017 | | December 31, 2016 | |
|---|-------------------|-----------------|-------------------|-----------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Mortgage-backed securities ¹ | \$ 7,932 | \$ 7,851 | \$ 2,879 | \$ 2,818 |
| Total | <u>\$ 7,932</u> | <u>\$ 7,851</u> | <u>\$ 2,879</u> | <u>\$ 2,818</u> |

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

[Table of Contents](#)

As of December 31, 2017, and December 31, 2016, the Corporation's investment securities held in *trading* accounts totaled \$4.6 million and \$3.9 million, respectively, and consisted of deferred compensation trust accounts which are invested in listed mutual funds whose diversification is at the discretion of the deferred compensation plan participants. Investment securities held in trading accounts are reported at fair value, with adjustments in fair value reported through income.

Note 5 - Loans and Leases

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

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

| <i>(dollars in thousands)</i> | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Loans held for sale | \$ 3,794 | \$ 9,621 |
| Real estate loans: | | |
| Commercial mortgage | \$ 1,523,377 | \$ 1,110,898 |
| Home equity lines and loans | 218,275 | 207,999 |
| Residential mortgage | 458,886 | 413,540 |
| Construction | 212,454 | 141,964 |
| Total real estate loans | 2,412,992 | 1,874,401 |
| Commercial and industrial | 719,312 | 579,791 |
| Consumer | 38,153 | 25,341 |
| Leases | 115,401 | 55,892 |
| Total portfolio loans and leases | 3,285,858 | 2,535,425 |
| Total loans and leases | \$ 3,289,652 | \$ 2,545,046 |
| Loans with fixed rates | \$ 1,573,052 | \$ 1,130,172 |
| Loans with adjustable or floating rates | 1,716,600 | 1,414,874 |
| Total loans and leases | \$ 3,289,652 | \$ 2,545,046 |
| Net deferred loan origination fees included in the above loan table | \$ (887) | \$ (735) |

The table below details the Corporation's *originated* portfolio loans and leases as of the dates indicated:

| <i>(dollars in thousands)</i> | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Loans held for sale | \$ 3,794 | \$ 9,621 |
| Real estate loans: | | |
| Commercial mortgage | \$ 1,122,327 | \$ 946,879 |
| Home equity lines and loans | 183,283 | 178,450 |
| Residential mortgage | 360,935 | 342,268 |
| Construction | 128,266 | 141,964 |
| Total real estate loans | 1,794,811 | 1,609,561 |
| Commercial and industrial | 589,304 | 550,334 |
| Consumer | 35,146 | 25,200 |
| Leases | 68,035 | 55,892 |
| Total originated portfolio loans and leases | 2,487,296 | 2,240,987 |
| Total originated loans and leases | \$ 2,491,090 | \$ 2,250,608 |
| Loans with fixed rates | \$ 1,034,542 | \$ 992,917 |
| Loans with adjustable or floating rates | 1,456,548 | 1,257,691 |
| Total originated loans and leases | \$ 2,491,090 | \$ 2,250,608 |
| Net deferred loan origination fees included in the above loan table | \$ (887) | \$ (735) |

[Table of Contents](#)

The table below details the Corporation's *acquired* portfolio loans as of the dates indicated:

| <i>(dollars in thousands)</i> | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Real estate loans: | | |
| Commercial mortgage | \$ 401,050 | \$ 164,019 |
| Home equity lines and loans | 34,992 | 29,549 |
| Residential mortgage | 97,951 | 71,272 |
| Construction | 84,188 | — |
| Total real estate loans | 618,181 | 264,840 |
| Commercial and industrial | 130,008 | 29,457 |
| Consumer | 3,007 | 141 |
| Leases | 47,366 | — |
| Total acquired portfolio loans and leases | \$ 798,562 | \$ 294,438 |
| Loans with fixed rates | \$ 538,510 | \$ 137,255 |
| Loans with adjustable or floating rates | 260,052 | 157,183 |
| Total acquired portfolio loans and leases | \$ 798,562 | \$ 294,438 |

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

| <i>(dollars in thousands)</i> | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Minimum lease payments receivable | \$ 130,811 | \$ 62,379 |
| Unearned lease income | (19,861) | (8,608) |
| Initial direct costs and deferred fees | 4,451 | 2,121 |
| Total leases | \$ 115,401 | \$ 55,892 |

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

| <i>(dollars in thousands)</i> | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Minimum lease payments receivable | \$ 75,592 | \$ 62,379 |
| Unearned lease income | (10,338) | (8,608) |
| Initial direct costs and deferred fees | 2,781 | 2,121 |
| Total originated leases | \$ 68,035 | \$ 55,892 |

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

| <i>(dollars in thousands)</i> | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Minimum lease payments receivable | \$ 55,219 | \$ — |
| Unearned lease income | (9,523) | — |
| Initial direct costs and deferred fees | 1,670 | — |
| Total acquired leases | \$ 47,366 | \$ — |

C. Non-Performing Loans and Leases

The following table details *all* non-performing portfolio loans and leases as of the dates indicated:

| <i>(dollars in thousands)</i> | December 31, 2017 | December 31, 2016 |
|---|------------------------------|------------------------------|
| Non-accrual loans and leases⁽¹⁾ | | |
| Commercial mortgage | \$ 872 | \$ 320 |
| Home equity lines and loans | 1,481 | 2,289 |
| Residential mortgage | 4,417 | 2,658 |
| Commercial and industrial | 1,706 | 2,957 |
| Consumer | — | 2 |
| Leases | 103 | 137 |
| Total | <u>\$ 8,579</u> | <u>\$ 8,363</u> |

⁽¹⁾ Purchased credit-impaired loans, which have been recorded at their fair values at acquisition, and which are performing, are excluded from this table, with the exception of \$167 thousand and \$344 thousand of purchased credit-impaired loans as of December 31, 2017 and December 31, 2016, respectively, which became non-performing subsequent to acquisition.

The following table details non-performing *originated* portfolio loans and leases as of the dates indicated:

| <i>(dollars in thousands)</i> | December 31, 2017 | December 31, 2016 |
|---|------------------------------|------------------------------|
| Non-accrual originated loans and leases: | | |
| Commercial mortgage | \$ 90 | \$ 265 |
| Home equity lines and loans | 1,221 | 2,169 |
| Residential mortgage | 1,505 | 1,654 |
| Commercial and industrial | 826 | 941 |
| Consumer | — | 2 |
| Leases | 103 | 137 |
| Total | <u>\$ 3,745</u> | <u>\$ 5,168</u> |

The following table details non-performing *acquired* portfolio loans as of the dates indicated:

| <i>(dollars in thousands)</i> | December 31, 2017 | December 31, 2016 |
|--|------------------------------|------------------------------|
| Non-accrual acquired loans and leases⁽¹⁾ | | |
| Commercial mortgage | \$ 782 | \$ 55 |
| Home equity lines and loans | 260 | 120 |
| Residential mortgage | 2,912 | 1,004 |
| Commercial and industrial | 880 | 2,016 |
| Total | <u>\$ 4,834</u> | <u>\$ 3,195</u> |

⁽¹⁾ Purchased credit-impaired loans, which have been recorded at their fair values at acquisition, and which are performing, are excluded from this table, with the exception of \$167 thousand and \$344 thousand of purchased credit-impaired loans as of December 31, 2017 and December 31, 2016, respectively, which became non-performing subsequent to acquisition.

D. Purchased Credit-Impaired Loans

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

| <i>(dollars in thousands)</i> | December 31, 2017 | December 31, 2016 |
|--------------------------------|------------------------------|------------------------------|
| Outstanding principal balance | \$ 46,543 | \$ 18,091 |
| Carrying amount ⁽¹⁾ | \$ 30,849 | \$ 12,432 |

⁽¹⁾ Includes \$1.9 million and \$368 thousand of purchased credit-impaired loans as of December 31, 2017 and December 31, 2016, respectively, for which the Corporation could not estimate the timing or amount of expected cash flows to be collected at acquisition, and for which no accretable yield is recognized. Additionally, the table above includes \$167 thousand and \$344 thousand of purchased credit-impaired loans as of December 31, 2017 and December 31, 2016, respectively, which became non-performing subsequent to acquisition, which are disclosed in Note 5C, above, and which also have no accretable yield.

[Table of Contents](#)

The following table presents changes in the accretable discount on purchased credit-impaired loans, for which the Corporation applies ASC 310-30, for the twelve months ended December 31, 2017:

| | Accretable Discount |
|---|------------------------|
| <i>(dollars in thousands)</i> | |
| Balance, December 31, 2016 | \$ 3,233 |
| Accretion | (1,934) |
| Reclassifications from nonaccretable difference | — |
| Additions/adjustments | 2,784 |
| Disposals | — |
| Balance, December 31, 2017 | \$ 4,083 |

E. Age Analysis of Past Due Loans and Leases

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

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

| Accruing Loans and Leases | | | | | | | | |
|-------------------------------|-----------------------------|-----------------------------|--------------------------|----------------|--------------|--|-----------------------------------|------------------------------|
| As of December 31, 2016 | 30 – 59 Days Past Due | 60 – 89 Days Past Due | Over 89 Days Past Due | Total Past Due | Current* | Total Accruing Loans and Leases | Nonaccrual Loans and Leases | Total Loans and Leases |
| <i>(dollars in thousands)</i> | | | | | | | | |
| Commercial mortgage | \$ 666 | \$ 722 | \$ — | \$ 1,388 | \$ 1,109,190 | \$ 1,110,578 | \$ 320 | \$ 1,110,898 |
| Home equity lines and loans | 11 | — | — | 11 | 205,699 | 205,710 | 2,289 | 207,999 |
| Residential mortgage | 823 | 490 | — | 1,313 | 409,569 | 410,882 | 2,658 | 413,540 |
| Construction | — | — | — | — | 141,964 | 141,964 | — | 141,964 |
| Commercial and industrial | 36 | — | — | 36 | 576,798 | 576,834 | 2,957 | 579,791 |
| Consumer | 10 | 5 | — | 15 | 25,324 | 25,339 | 2 | 25,341 |
| Leases | 177 | 86 | — | 263 | 55,492 | 55,755 | 137 | 55,892 |
| Total | \$ 1,723 | \$ 1,303 | \$ — | \$ 3,026 | \$ 2,524,036 | \$ 2,527,062 | \$ 8,363 | \$ 2,535,425 |

*Included as "current" are \$4.1 million and \$15.3 million of loans and leases as of December 31, 2017 and 2016, respectively, which are classified as Administratively Delinquent. An Administratively Delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. The Corporation does not consider these loans to be delinquent.

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

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

Accruing Loans and Leases

| As of December 31, 2016 | 30 – 59 Days Past Due | 60 – 89 Days Past Due | Over 89 Days Past Due | Total Past Due | Current* | Total Accruing Loans and Leases | Nonaccrual Loans and Leases | Total Loans and Leases |
|-------------------------------|-----------------------------|-----------------------------|--------------------------|-----------------|---------------------|---------------------------------------|-----------------------------------|------------------------------|
| <i>(dollars in thousands)</i> | | | | | | | | |
| Commercial mortgage | \$ — | \$ 722 | \$ — | \$ 722 | \$ 945,892 | \$ 946,614 | \$ 265 | \$ 946,879 |
| Home equity lines and loans | 11 | — | — | 11 | 176,270 | 176,281 | 2,169 | 178,450 |
| Residential mortgage | 773 | 64 | — | 837 | 339,778 | 340,615 | 1,653 | 342,268 |
| Construction | — | — | — | — | 141,964 | 141,964 | — | 141,964 |
| Commercial and industrial | — | — | — | — | 549,393 | 549,393 | 941 | 550,334 |
| Consumer | 10 | 5 | — | 15 | 25,183 | 25,198 | 2 | 25,200 |
| Leases | 177 | 86 | — | 263 | 55,492 | 55,755 | 137 | 55,892 |
| Total | <u>\$ 971</u> | <u>\$ 877</u> | <u>\$ —</u> | <u>\$ 1,848</u> | <u>\$ 2,233,972</u> | <u>\$ 2,235,820</u> | <u>\$ 5,167</u> | <u>\$ 2,240,987</u> |

*Included as “current” are \$4.0 million and \$13.5 million of loans and leases as of December 31, 2017 and 2016, respectively, which are classified as Administratively Delinquent. An Administratively Delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. The Corporation does not consider these loans to be delinquent.

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

Accruing Loans and Leases

| As of December 31, 2017 | 30 – 59 Days Past Due | 60 – 89 Days Past Due | Over 89 Days Past Due | Total Past Due | Current* | Total Accruing Loans and Leases | Nonaccrual Loans and Leases | Total Loans and Leases |
|-------------------------------|-----------------------------|-----------------------------|--------------------------|-----------------|-------------------|---------------------------------------|-----------------------------------|------------------------------|
| <i>(dollars in thousands)</i> | | | | | | | | |
| Commercial mortgage | \$ 111 | \$ 2,347 | \$ — | \$ 2,458 | \$ 397,810 | \$ 400,268 | \$ 782 | \$ 401,050 |
| Home equity lines and loans | 312 | 10 | — | 322 | 34,410 | 34,732 | 260 | 34,992 |
| Residential mortgage | 665 | 79 | — | 744 | 94,295 | 95,039 | 2,912 | 97,951 |
| Construction | — | — | — | — | 84,188 | 84,188 | — | 84,188 |
| Commercial and industrial | 219 | 50 | — | 269 | 128,859 | 129,128 | 880 | 130,008 |
| Consumer | 1,085 | — | — | 1,085 | 1,922 | 3,007 | — | 3,007 |
| Leases | — | — | — | — | 47,366 | 47,366 | — | 47,366 |
| Total | <u>\$ 2,392</u> | <u>\$ 2,486</u> | <u>\$ —</u> | <u>\$ 4,878</u> | <u>\$ 788,850</u> | <u>\$ 793,728</u> | <u>\$ 4,834</u> | <u>\$ 798,562</u> |

Accruing Loans and Leases

| As of December 31, 2016 | 30 – 59 Days Past Due | 60 – 89 Days Past Due | Over 89 Days Past Due | Total Past Due | Current* | Total Accruing Loans and Leases | Nonaccrual Loans and Leases | Total Loans and Leases |
|-------------------------------|-----------------------------|-----------------------------|--------------------------|-----------------|-------------------|---------------------------------------|-----------------------------------|------------------------------|
| <i>(dollars in thousands)</i> | | | | | | | | |
| Commercial mortgage | \$ 666 | \$ — | \$ — | \$ 666 | \$ 163,298 | \$ 163,964 | \$ 55 | \$ 164,019 |
| Home equity lines and loans | — | — | — | — | 29,429 | 29,429 | 120 | 29,549 |
| Residential mortgage | 50 | 426 | — | 476 | 69,791 | 70,267 | 1,005 | 71,272 |
| Construction | — | — | — | — | — | — | — | — |
| Commercial and industrial | 36 | — | — | 36 | 27,405 | 27,441 | 2,016 | 29,457 |
| Consumer | — | — | — | — | 141 | 141 | — | 141 |
| Total | <u>\$ 752</u> | <u>\$ 426</u> | <u>\$ —</u> | <u>\$ 1,178</u> | <u>\$ 290,064</u> | <u>\$ 291,242</u> | <u>\$ 3,196</u> | <u>\$ 294,438</u> |

*Included as “current” are \$102 thousand and \$1.8 million of loans and leases as of December 31, 2017 and 2016, respectively, which are classified as Administratively Delinquent. An Administratively Delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. The Corporation does not consider these loans to be delinquent.

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

The following tables detail the roll-forward of the Allowance for the twelve months ended December 31, 2017 and December 31, 2016:

| <i>(dollars in thousands)</i> | Commercial Mortgage | Home Equity Lines and Loans | Residential Mortgage | Construction | Commercial and Industrial | Consumer | Leases | Unallocated | Total |
|-------------------------------------|------------------------|--------------------------------------|-------------------------|--------------|---------------------------------|----------|---------|-------------|-----------|
| Balance, December 31, 2016 | \$ 6,227 | \$ 1,255 | \$ 1,917 | \$ 2,233 | \$ 5,142 | \$ 153 | \$ 559 | \$ — | \$ 17,486 |
| Charge-offs | (55) | (675) | (326) | — | (692) | (154) | (1,224) | — | (3,126) |
| Recoveries | 12 | 5 | 165 | 4 | 25 | 8 | 328 | — | 547 |
| Provision for loan and lease losses | 1,366 | 501 | 170 | (1,300) | 563 | 239 | 1,079 | — | 2,618 |
| Balance, December 31, 2017 | \$ 7,550 | \$ 1,086 | \$ 1,926 | \$ 937 | \$ 5,038 | \$ 246 | \$ 742 | \$ — | \$ 17,525 |

| <i>(dollars in thousands)</i> | Commercial Mortgage | Home Equity Lines and Loans | Residential Mortgage | Construction | Commercial and Industrial | Consumer | Leases | Unallocated | Total |
|-------------------------------------|------------------------|--------------------------------------|-------------------------|--------------|---------------------------------|----------|--------|-------------|-----------|
| Balance, December 31, 2015 | \$ 5,199 | \$ 1,307 | \$ 1,740 | \$ 1,324 | \$ 5,609 | \$ 142 | \$ 518 | \$ 18 | \$ 15,857 |
| Charge-offs | (110) | (592) | (306) | — | (1,298) | (173) | (808) | — | (3,287) |
| Recoveries | 62 | 68 | 48 | 64 | 93 | 23 | 232 | — | 590 |
| Provision for loan and lease losses | 1,076 | 472 | 435 | 845 | 738 | 161 | 617 | (18) | 4,326 |
| Balance, December 31, 2016 | \$ 6,227 | \$ 1,255 | \$ 1,917 | \$ 2,233 | \$ 5,142 | \$ 153 | \$ 559 | \$ — | \$ 17,486 |

The following tables detail the allocation of the Allowance for *all* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2017 and December 31, 2016:

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

| As of December 31, 2016 | Commercial Mortgage | Home Equity Lines and Loans | Residential Mortgage | Construction | Commercial and Industrial | Consumer | Leases | Unallocated | Total |
|--|------------------------|--------------------------------------|-------------------------|--------------|---------------------------------|----------|--------|-------------|-----------|
| <i>(dollars in thousands)</i> | | | | | | | | | |
| Allowance on loans and leases: | | | | | | | | | |
| Individually evaluated for impairment | \$ — | \$ — | \$ 73 | \$ — | \$ 5 | \$ 8 | \$ — | \$ — | \$ 86 |
| Collectively evaluated for impairment | 6,227 | 1,255 | 1,844 | 2,233 | 5,137 | 145 | 559 | — | 17,400 |
| Purchased credit-impaired ⁽¹⁾ | — | — | — | — | — | — | — | — | — |
| Total | \$ 6,227 | \$ 1,255 | \$ 1,917 | \$ 2,233 | \$ 5,142 | \$ 153 | \$ 559 | \$ — | \$ 17,486 |

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

[Table of Contents](#)

The following tables detail the carrying value for *all* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2017 and December 31, 2016:

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

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

| As of December 31, 2016 | Commercial Mortgage | Home Equity Lines and Loans | Residential Mortgage | Construction | Commercial and Industrial | Consumer | Leases | Total |
|--|---------------------|-----------------------------|----------------------|-------------------|---------------------------|------------------|------------------|---------------------|
| <i>(dollars in thousands)</i> | | | | | | | | |
| Carrying value of loans and leases: | | | | | | | | |
| Individually evaluated for impairment | \$ 1,576 | \$ 2,354 | \$ 7,266 | \$ — | \$ 2,946 | \$ 31 | \$ — | \$ 14,173 |
| Collectively evaluated for impairment | 1,098,788 | 205,540 | 406,271 | 141,964 | 575,055 | 25,310 | 55,892 | 2,508,820 |
| Purchased credit-impaired ⁽¹⁾ | 10,534 | 105 | 3 | — | 1,790 | — | — | 12,432 |
| Total | <u>\$ 1,110,898</u> | <u>\$ 207,999</u> | <u>\$ 413,540</u> | <u>\$ 141,964</u> | <u>\$ 579,791</u> | <u>\$ 25,341</u> | <u>\$ 55,892</u> | <u>\$ 2,535,425</u> |

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

The following tables detail the allocation of the Allowance for *originated* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2017 and December 31, 2016:

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

| As of December 31, 2016 | Commercial Mortgage | Home Equity Lines and Loans | Residential Mortgage | Construction | Commercial and Industrial | Consumer | Leases | Unallocated | Total |
|---------------------------------------|---------------------|-----------------------------|----------------------|-----------------|---------------------------|---------------|---------------|-------------|------------------|
| <i>(dollars in thousands)</i> | | | | | | | | | |
| Allowance on loans and leases: | | | | | | | | | |
| Individually evaluated for impairment | \$ — | \$ — | \$ 45 | \$ — | \$ 5 | \$ 8 | \$ — | \$ — | \$ 58 |
| Collectively evaluated for impairment | 6,227 | 1,255 | 1,844 | 2,233 | 5,137 | 145 | 559 | — | 17,400 |
| Total | <u>\$ 6,227</u> | <u>\$ 1,255</u> | <u>\$ 1,889</u> | <u>\$ 2,233</u> | <u>\$ 5,142</u> | <u>\$ 153</u> | <u>\$ 559</u> | <u>\$ —</u> | <u>\$ 17,458</u> |

[Table of Contents](#)

The following tables detail the carrying value for *originated* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2017 and December 31, 2016:

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

| As of December 31, 2016 | | Home Equity Lines and Loans | Residential Mortgage | Construction | Commercial and Industrial | Consumer | Leases | Total |
|---------------------------------------|-------------------|--|---------------------------------|---------------------|--|------------------|------------------|---------------------|
| <i>(dollars in thousands)</i> | | | | | | | | |
| Carrying value of loans and leases: | | | | | | | | |
| Individually evaluated for impairment | \$ 1,521 | \$ 2,319 | \$ 4,111 | \$ — | \$ 1,190 | \$ 31 | \$ — | \$ 9,172 |
| Collectively evaluated for impairment | 945,358 | 176,131 | 338,157 | 141,964 | 549,144 | 25,169 | 55,892 | 2,231,815 |
| Total | \$ 946,879 | \$ 178,450 | \$ 342,268 | \$ 141,964 | \$ 550,334 | \$ 25,200 | \$ 55,892 | \$ 2,240,987 |

The following tables detail the allocation of the Allowance for *acquired* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2017 and December 31, 2016:

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

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

| As of December 31, 2016 | | Home Equity Lines and Loans | Residential Mortgage | Construction | Commercial and Industrial | Consumer | Leases | Total |
|--|-------------|--|---------------------------------|---------------------|--|-----------------|---------------|--------------|
| <i>(dollars in thousands)</i> | | | | | | | | |
| Allowance on loans and leases: | | | | | | | | |
| Individually evaluated for impairment | \$ — | \$ — | \$ 28 | \$ — | \$ — | \$ — | \$ — | \$ 28 |
| Collectively evaluated for impairment | — | — | — | — | — | — | — | — |
| Purchased credit-impaired ⁽¹⁾ | — | — | — | — | — | — | — | — |
| Total | \$ — | \$ — | \$ 28 | \$ — | \$ — | \$ — | \$ — | \$ 28 |

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

[Table of Contents](#)

The following tables detail the carrying value for *acquired* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2017 and December 31, 2016:

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

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

| As of December 31, 2016 | Commercial Mortgage | Home Equity Lines and Loans | Residential Mortgage | Construction | Commercial and Industrial | Consumer | Leases | Total |
|--|------------------------|-----------------------------------|-------------------------|--------------|---------------------------------|---------------|-------------|-------------------|
| <i>(dollars in thousands)</i> | | | | | | | | |
| Carrying value of loans and leases: | | | | | | | | |
| Individually evaluated for impairment | \$ 55 | \$ 35 | \$ 3,155 | \$ — | \$ 1,756 | \$ — | \$ — | \$ 5,001 |
| Collectively evaluated for impairment | 153,430 | 29,409 | 68,114 | — | 25,911 | 141 | — | 277,005 |
| Purchased credit-impaired ⁽¹⁾ | 10,534 | 105 | 3 | — | 1,790 | — | — | 12,432 |
| Total | \$ 164,019 | \$ 29,549 | \$ 71,272 | \$ — | \$ 29,457 | \$ 141 | \$ — | \$ 294,438 |

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

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

- Pass – Loans considered satisfactory with no indications of deterioration.
- Special mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- Substandard - Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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

[Table of Contents](#)

The following tables detail the carrying value of *all* portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of December 31, 2017 and December 31, 2016:

| (dollars in thousands) | Credit Risk Profile by Internally Assigned Grade | | | | | | | |
|------------------------|--|-------------------|-------------------|-------------------|---------------------------|-------------------|-------------------|-------------------|
| | Commercial Mortgage | | Construction | | Commercial and Industrial | | Total | |
| | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 |
| Pass | \$ 1,490,862 | \$ 1,099,557 | \$ 193,227 | \$ 140,370 | \$ 711,145 | \$ 570,342 | \$ 2,395,234 | \$ 1,810,269 |
| Special Mention | 13,448 | 1,892 | 3,902 | — | 889 | 2,315 | 18,239 | 4,207 |
| Substandard | 18,194 | 9,449 | 15,325 | 1,594 | 6,013 | 5,512 | 39,532 | 16,555 |
| Doubtful | 873 | — | — | — | 1,265 | 1,622 | 2,138 | 1,622 |
| Total | \$ 1,523,377 | \$ 1,110,898 | \$ 212,454 | \$ 141,964 | \$ 719,312 | \$ 579,791 | \$ 2,455,143 | \$ 1,832,653 |

| (dollars in thousands) | Credit Risk Profile by Payment Activity | | | | | | | | | |
|------------------------|---|-------------------|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Residential Mortgage | | Home Equity Lines and Loans | | Consumer | | Leases | | Total | |
| | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 |
| Performing | \$ 454,469 | \$ 410,882 | \$ 216,794 | \$ 205,710 | \$ 38,153 | \$ 25,339 | \$ 115,298 | \$ 55,755 | \$ 824,714 | \$ 697,686 |
| Non-performing | 4,417 | 2,658 | 1,481 | 2,289 | — | 2 | 103 | 137 | 6,001 | 5,086 |
| Total | \$ 458,886 | \$ 413,540 | \$ 218,275 | \$ 207,999 | \$ 38,153 | \$ 25,341 | \$ 115,401 | \$ 55,892 | \$ 830,715 | \$ 702,772 |

The following tables detail the carrying value of *originated* portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of December 31, 2017 and December 31, 2016:

| (dollars in thousands) | Credit Risk Profile by Internally Assigned Grade | | | | | | | |
|------------------------|--|-------------------|-------------------|-------------------|---------------------------|-------------------|-------------------|-------------------|
| | Commercial Mortgage | | Construction | | Commercial and Industrial | | Total | |
| | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 |
| Pass | \$ 1,114,171 | \$ 936,737 | \$ 126,260 | \$ 140,370 | \$ 586,896 | \$ 544,876 | \$ 1,827,327 | \$ 1,621,983 |
| Special Mention | — | 1,892 | — | — | 664 | 2,279 | 664 | 4,171 |
| Substandard | 8,156 | 8,250 | 2,006 | 1,594 | 1,389 | 3,054 | 11,551 | 12,898 |
| Doubtful | — | — | — | — | 355 | 125 | 355 | 125 |
| Total | \$ 1,122,327 | \$ 946,879 | \$ 128,266 | \$ 141,964 | \$ 589,304 | \$ 550,334 | \$ 1,839,897 | \$ 1,639,177 |

| (dollars in thousands) | Credit Risk Profile by Payment Activity | | | | | | | | | |
|------------------------|---|-------------------|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Residential Mortgage | | Home Equity Lines and Loans | | Consumer | | Leases | | Total | |
| | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 |
| Performing | \$ 359,430 | \$ 340,615 | \$ 182,062 | \$ 176,281 | \$ 35,146 | \$ 25,198 | \$ 67,932 | \$ 55,755 | \$ 644,570 | \$ 597,849 |
| Non-performing | 1,505 | 1,653 | 1,221 | 2,169 | — | 2 | 103 | 137 | 2,829 | 3,961 |
| Total | \$ 360,935 | \$ 342,268 | \$ 183,283 | \$ 178,450 | \$ 35,146 | \$ 25,200 | \$ 68,035 | \$ 55,892 | \$ 647,399 | \$ 601,810 |

[Table of Contents](#)

The following tables detail the carrying value of *acquired* portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of December 31, 2017 and December 31, 2016:

| | Credit Risk Profile by Internally Assigned Grade | | | | | | | | |
|-------------------------------|--|-------------------|-------------------|-------------------|---------------------------|-------------------|-------------------|-------------------|--|
| | Commercial Mortgage | | Construction | | Commercial and Industrial | | Total | | |
| | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | |
| <i>(dollars in thousands)</i> | | | | | | | | | |
| Pass | \$ 376,691 | \$ 162,820 | \$ 66,967 | \$ — | \$ 124,249 | \$ 25,466 | \$ 567,907 | \$ 188,286 | |
| Special Mention | 13,448 | — | 3,902 | — | 225 | 36 | 17,575 | 36 | |
| Substandard | 10,038 | 1,199 | 13,319 | — | 4,624 | 2,458 | 27,981 | 3,657 | |
| Doubtful | 873 | — | — | — | 910 | 1,497 | 1,783 | 1,497 | |
| Total | \$ 401,050 | \$ 164,019 | \$ 84,188 | \$ — | \$ 130,008 | \$ 29,457 | \$ 615,246 | \$ 193,476 | |

| | Credit Risk Profile by Payment Activity | | | | | | | | | |
|-------------------------------|---|-------------------|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Residential Mortgage | | Home Equity Lines and Loans | | Consumer | | Leases | | Total | |
| | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 |
| <i>(dollars in thousands)</i> | | | | | | | | | | |
| Performing | \$ 95,039 | \$ 70,267 | \$ 34,732 | \$ 29,429 | \$ 3,007 | \$ 141 | \$ 47,366 | \$ — | \$ 180,144 | \$ 99,837 |
| Non-performing | 2,912 | 1,005 | 260 | 120 | — | — | — | — | 3,172 | 1,125 |
| Total | \$ 97,951 | \$ 71,272 | \$ 34,992 | \$ 29,549 | \$ 3,007 | \$ 141 | \$ 47,366 | \$ — | \$ 183,316 | \$ 100,962 |

G. Troubled Debt Restructurings (“TDRs”)

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

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

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

| <i>(dollars in thousands)</i> | December 31, 2017 | December 31, 2016 |
|---|-------------------|-------------------|
| TDRs included in nonperforming loans and leases | \$ 3,289 | \$ 2,632 |
| TDRs in compliance with modified terms | 5,800 | 6,395 |
| Total TDRs | \$ 9,089 | \$ 9,027 |

The following table presents information regarding loan and lease modifications categorized as TDRs for the twelve months ended December 31, 2017:

| | For the Twelve Months Ended December 31, 2017 | | |
|-------------------------------|---|---------------------------------|---------------------------------|
| | Number of Contracts | Pre-Modification | Post-Modification |
| | | Outstanding Recorded Investment | Outstanding Recorded Investment |
| <i>(dollars in thousands)</i> | | | |
| Residential | 3 | \$ 432 | \$ 432 |
| Home equity lines and loans | 3 | 582 | 582 |
| Leases | 4 | 100 | 100 |
| Total | 10 | \$ 1,114 | \$ 1,114 |

[Table of Contents](#)

The following table presents information regarding the types of loan and lease modifications made for the twelve months ended December 31, 2017:

| | Number of Contracts | | | | |
|-----------------------------|---------------------|---|--|---|----------------------------|
| | Loan Term Extension | Interest Rate Change and Term Extension | Interest Rate Change and/or Interest-Only Period | Contractual Payment Reduction (Leases only) | Temporary Payment Deferral |
| Residential | 1 | 1 | 1 | — | — |
| Home equity lines and loans | — | — | 3 | — | — |
| Leases | — | — | — | 4 | — |
| Total | 1 | 1 | 4 | 4 | — |

The following table presents information regarding loan and lease modifications categorized as TDRs for the twelve months ended December 31, 2016:

| | For the Twelve Months Ended December 31, 2016 | | |
|-------------------------------|---|--|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| <i>(dollars in thousands)</i> | | | |
| Commercial mortgage | 1 | \$ 1,256 | \$ 1,256 |
| Residential | 2 | 141 | 148 |
| Home equity lines and loans | 6 | 265 | 265 |
| Commercial and industrial | 4 | 1,006 | 1,006 |
| Leases | 3 | 104 | 104 |
| Total | 16 | \$ 2,772 | \$ 2,779 |

The following table presents information regarding the types of loan and lease modifications made for the twelve months ended December 31, 2016:

| | Number of Contracts | | | | |
|-----------------------------|---------------------|---|--|---|----------------------------|
| | Loan Term Extension | Interest Rate Change and Term Extension | Interest Rate Change and/or Interest-Only Period | Contractual Payment Reduction (Leases only) | Temporary Payment Deferral |
| Commercial mortgage | 1 | — | — | — | — |
| Residential | — | 2 | — | — | — |
| Home equity lines and loans | — | — | 6 | — | — |
| Commercial and industrial | 3 | — | — | — | 1 |
| Leases | — | — | — | 3 | — |
| Total | 4 | 2 | 6 | 3 | 1 |

During the twelve months ended December 31, 2017, one commercial and industrial loan with a principal balance of \$63 thousand which had been previously modified to a troubled debt restructuring defaulted and was charged off.

H. Impaired Loans

The following tables detail the recorded investment and principal balance of impaired loans by portfolio segment, their related allowance for loan and lease losses and interest income recognized for the twelve months ended December 31, 2017, 2016 and 2015 (purchased credit-impaired loans are not included in the tables):

| As of or for the Twelve Months Ended December 31, 2017 (dollars in thousands) | Recorded Investment** | Principal Balance | Related Allowance | Average Principal Balance | Interest Income Recognized | Cash-Basis Interest Income Recognized |
|--|-----------------------|-------------------|-------------------|---------------------------|----------------------------|---------------------------------------|
| Impaired loans with related allowance: | | | | | | |
| Home equity lines and loans | \$ 577 | \$ 577 | \$ 19 | \$ 232 | \$ 7 | \$ — |
| Residential mortgage | 2,436 | 2,435 | 230 | 2,467 | 127 | — |
| Commercial and industrial | 18 | 19 | 5 | 19 | 1 | — |
| Consumer | 27 | 27 | 4 | 28 | 1 | — |
| Total | \$ 3,058 | \$ 3,058 | \$ 258 | \$ 2,746 | \$ 136 | \$ — |
| Impaired loans* without related allowance: | | | | | | |
| Commercial mortgage | \$ 2,128 | \$ 2,218 | \$ — | \$ 2,205 | \$ 85 | \$ — |
| Home equity lines and loans | 1,585 | 1,645 | — | 1,636 | 38 | — |
| Residential mortgage | 5,290 | 5,529 | — | 4,994 | 191 | — |
| Commercial and industrial | 1,879 | 3,613 | — | 2,079 | 35 | — |
| Total | \$ 10,882 | \$ 13,005 | \$ — | \$ 10,914 | \$ 349 | \$ — |
| Grand total | \$ 13,940 | \$ 16,063 | \$ 258 | \$ 13,660 | \$ 485 | \$ — |

*The table above does not include the recorded investment of \$272 thousand of impaired leases without a related allowance for loan and lease losses.

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

| As of or for the Twelve Months Ended December 31, 2016 (dollars in thousands) | Recorded Investment** | Principal Balance | Related Allowance | Average Principal Balance | Interest Income Recognized | Cash-Basis Interest Income Recognized |
|--|-----------------------|-------------------|-------------------|---------------------------|----------------------------|---------------------------------------|
| Impaired loans with related allowance: | | | | | | |
| Residential mortgage | \$ 622 | \$ 622 | \$ 73 | \$ 639 | \$ 27 | \$ — |
| Commercial and industrial | 84 | 84 | 5 | 103 | 5 | — |
| Consumer | 31 | 31 | 8 | 33 | 2 | — |
| Total | \$ 737 | \$ 737 | \$ 86 | \$ 775 | \$ 34 | \$ — |
| Impaired loans* without related allowance: | | | | | | |
| Commercial mortgage | \$ 1,577 | \$ 1,577 | \$ — | \$ 1,583 | \$ 70 | \$ — |
| Home equity lines and loans | 2,354 | 2,778 | — | 2,833 | 25 | — |
| Residential mortgage | 6,644 | 6,970 | — | 7,544 | 276 | — |
| Commercial and industrial | 2,862 | 3,692 | — | 8,362 | 146 | — |
| Total | \$ 13,437 | \$ 15,017 | \$ — | \$ 20,322 | \$ 517 | \$ — |
| Grand total | \$ 14,174 | \$ 15,754 | \$ 86 | \$ 21,097 | \$ 551 | \$ — |

*The table above does not include the recorded investment of \$240 thousand of impaired leases without a related allowance for loan and lease losses.

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

[Table of Contents](#)

| As of or for the Twelve Months Ended December 31, 2015 (dollars in thousands) | Recorded Investment** | Principal Balance | Related Allowance | Average Principal Balance | Interest Income Recognized | Cash-Basis Interest Income Recognized |
|---|--------------------------|----------------------|----------------------|---------------------------------|----------------------------------|--|
| Impaired loans with related allowance: | | | | | | |
| Home equity lines and loans | \$ 115 | \$ 115 | \$ 115 | \$ 125 | \$ 4 | \$ — |
| Residential mortgage | 515 | 527 | 54 | 531 | 23 | — |
| Commercial and industrial | 2,011 | 2,002 | 519 | 2,215 | 49 | — |
| Consumer | 30 | 30 | 5 | 31 | 1 | — |
| Total | \$ 2,671 | \$ 2,674 | \$ 693 | \$ 2,902 | \$ 77 | \$ — |
| Impaired loans* without related allowance: | | | | | | |
| Commercial mortgage | \$ 349 | \$ 358 | \$ — | \$ 361 | \$ 9 | \$ — |
| Home equity lines and loans | 1,865 | 2,447 | — | 2,605 | 46 | — |
| Residential mortgage | 7,239 | 8,166 | — | 8,085 | 257 | — |
| Construction | 33 | 996 | — | 1,087 | — | — |
| Commercial and industrial | 2,229 | 3,089 | — | 4,985 | 124 | — |
| Total | \$ 11,715 | \$ 15,056 | \$ — | \$ 17,123 | \$ 436 | \$ — |
| Grand total | \$ 14,386 | \$ 17,730 | \$ 693 | \$ 20,025 | \$ 513 | \$ — |

*The table above does not include the recorded investment of \$77 thousand of impaired leases without a related allowance for loan and lease losses.

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

I. Loan Mark

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

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

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

| (dollars in thousands) | As of December 31, 2016 | | |
|-----------------------------|--------------------------|------------------------|------------------------|
| | Outstanding Principal | Remaining Loan Mark | Recorded Investment |
| Commercial mortgage | \$ 168,612 | \$ (4,593) | \$ 164,019 |
| Home equity lines and loans | 31,236 | (1,687) | 29,549 |
| Residential mortgage | 73,902 | (2,630) | 71,272 |
| Commercial and industrial | 32,812 | (3,355) | 29,457 |
| Consumer | 163 | (22) | 141 |
| Total | \$ 306,725 | \$ (12,287) | \$ 294,438 |

Note 6 - Other Real Estate Owned

The summary of the change in other real estate owned, which is included as a component of other assets on the Corporation's Consolidated Balance Sheets, is as follows:

| <i>(dollars in thousands)</i> | December 31, | |
|-------------------------------|---------------|-----------------|
| | 2017 | 2016 |
| Balance January 1 | \$ 1,017 | \$ 2,638 |
| Additions | 560 | 355 |
| Impairments | (121) | (94) |
| Sales | (1,152) | (1,882) |
| Balance December 31 | <u>\$ 304</u> | <u>\$ 1,017</u> |

As of December 31, 2017, the balance of OREO is comprised of two residential properties which resulted from loan foreclosures and OREO acquired in the RBPI Merger.

Note 7 - Premises and Equipment

A. A summary of premises and equipment is as follows:

| <i>(dollars in thousands)</i> | December 31, | |
|--------------------------------|------------------|------------------|
| | 2017 | 2016 |
| Land | \$ 9,522 | \$ 5,306 |
| Buildings | 31,376 | 24,998 |
| Furniture and equipment | 38,775 | 36,930 |
| Leasehold improvements | 26,636 | 24,713 |
| Construction in progress | 4,171 | 56 |
| Less: accumulated depreciation | (56,022) | (50,225) |
| Total | <u>\$ 54,458</u> | <u>\$ 41,778</u> |

Depreciation and amortization expense related to the assets detailed in the above table for the years ended December 31, 2017, 2016, and 2015 amounted to \$5.7 million, \$5.8 million, and \$5.1 million, respectively.

B. Future minimum cash rent commitments under various operating leases as of December 31, 2017 are as follows:

| <i>(dollars in thousands)</i> | Commitments |
|-------------------------------|------------------|
| 2018 | \$ 6,833 |
| 2019 | 4,535 |
| 2020 | 3,959 |
| 2021 | 3,333 |
| 2022 | 2,776 |
| 2023 and thereafter | 11,082 |
| Total | <u>\$ 32,518</u> |

Rent expense on leased premises and equipment for the years ended December 31, 2017, 2016 and 2015 amounted to \$4.7 million, \$4.6 million, and \$5.1 million, respectively.

Note 8 - Mortgage Servicing Rights (“MSR”s)

A. The following summarizes the Corporation’s activity related to MSR for the years ended December 31:

| <i>(dollars in thousands)</i> | 2017 | 2016 | 2015 |
|--|-------------------|-------------------|-------------------|
| Balance, January 1 | \$ 5,582 | \$ 5,142 | \$ 4,765 |
| Additions | 1,025 | 1,321 | 1,037 |
| Amortization | (791) | (750) | (590) |
| Recovery / (Impairment) | 45 | (131) | (70) |
| Balance, December 31 | <u>\$ 5,861</u> | <u>\$ 5,582</u> | <u>\$ 5,142</u> |
| Fair value | <u>\$ 6,397</u> | <u>\$ 6,154</u> | <u>\$ 5,726</u> |
| Residential mortgage loans serviced for others | <u>\$ 650,703</u> | <u>\$ 631,889</u> | <u>\$ 601,939</u> |

B. The following summarizes the Corporation’s activity related to changes in the impairment valuation allowance of MSR for the years ended December 31:

| <i>(dollars in thousands)</i> | 2017 | 2016 | 2015 |
|-------------------------------|-------------------|-------------------|-------------------|
| Balance, January 1 | \$ (1,805) | \$ (1,674) | \$ (1,604) |
| Impairment | (52) | (715) | (123) |
| Recovery | 97 | 584 | 53 |
| Balance, December 31 | <u>\$ (1,760)</u> | <u>\$ (1,805)</u> | <u>\$ (1,674)</u> |

C. Other MSR Information – At December 31, 2017, 2016, and 2015, key economic assumptions and the sensitivity of the current fair value of MSR to immediate 10 and 20 percent adverse changes in those assumptions are as follows:

| <i>(dollars in thousands)</i> | 2017 | 2016 | 2015 |
|---|----------|----------|----------|
| Fair value amount of MSR | \$ 6,397 | \$ 6,154 | \$ 5,726 |
| Weighted average life (in years) | 6.1 | 6.1 | 6.1 |
| Prepayment speeds (constant prepayment rate)* | 10.3% | 10.3% | 10.3% |
| Impact on fair value: | | | |
| 10% adverse change | \$ (194) | \$ (194) | \$ (194) |
| 20% adverse change | \$ (394) | \$ (394) | \$ (394) |
| Discount rate | 9.55% | 9.55% | 9.55% |
| Impact on fair value: | | | |
| 10% adverse change | \$ (225) | \$ (225) | \$ (225) |
| 20% adverse change | \$ (434) | \$ (434) | \$ (434) |

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

At December 31, 2017, 2016, and 2015, the fair value of the MSR was \$6.4 million, \$6.2 million, and \$5.7 million, respectively. The fair value of the MSR for these dates was determined using values obtained from a third party which utilizes a valuation model which calculates the present value of estimated future servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds and discount rates. Mortgage loan prepayment speed is the annual rate at which borrowers are forecasted to repay their mortgage loan principal and is based on historical experience. The discount rate is used to determine the present value of future net servicing income. Another key assumption in the model is the required rate of return the market would expect for an asset with similar risk. These assumptions can, and generally will, change quarterly valuations as market conditions and interest rates change. Management reviews, annually, the process utilized by its independent third-party valuation experts.

These assumptions and sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSR is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which could magnify or counteract the sensitivities.

Note 9 - Deposits

A. The following table details the components of deposits:

| <i>(dollars in thousands)</i> | As of December 31, | |
|---------------------------------------|--------------------|--------------|
| | 2017 | 2016 |
| Savings | \$ 338,572 | \$ 232,193 |
| NOW accounts* | 482,252 | 380,057 |
| Market rate accounts* | 923,999 | 835,296 |
| Retail time deposits, less than \$100 | 272,528 | 139,276 |
| Retail time deposits, \$100 or more | 259,674 | 183,636 |
| Wholesale time deposits | 171,929 | 73,037 |
| Total interest-bearing deposits | \$ 2,448,954 | \$ 1,843,495 |
| Non-interest-bearing deposits | 924,844 | 736,180 |
| Total deposits | \$ 3,373,798 | \$ 2,579,675 |

* Includes wholesale deposits.

The aggregate amount of deposit and mortgage escrow overdrafts included as loans as of December 31, 2017 and 2016 were \$669 thousand and \$818 thousand, respectively.

The aggregate amount of time deposits in denominations over \$250 thousand were \$193.3 million and \$117.8 million as of December 31, 2017 and 2016, respectively.

B. The following tables detail the maturities of retail time deposits:

| <i>(dollars in thousands)</i> | As of December 31, 2017 | |
|-------------------------------|-------------------------|---------------|
| | Less than \$100 | \$100 or more |
| Maturing during: | | |
| 2018 | \$ 183,049 | \$ 197,127 |
| 2019 | 52,972 | 40,707 |
| 2020 | 16,794 | 11,020 |
| 2021 | 13,737 | 8,471 |
| 2022 and thereafter | 5,976 | 2,349 |
| Total | \$ 272,528 | \$ 259,674 |

C. The following tables detail the maturities of wholesale time deposits:

| <i>(dollars in thousands)</i> | As of December 31, 2017 | |
|-------------------------------|-------------------------|---------------|
| | Less than \$100 | \$100 or more |
| Maturing during: | | |
| 2018 | \$ 3,729 | \$ 153,207 |
| 2019 | — | 14,993 |
| Total | \$ 3,729 | \$ 168,200 |

Note 10 - Short-Term Borrowings and Long-Term FHLB Advances

A. Short-term borrowings

As of December 31, 2017 and 2016, the Corporation had \$237.9 million and \$204.2 million of short-term borrowings (original maturity of one year or less), respectively, which consisted of funds obtained from overnight repurchase agreements with commercial customers and short-term FHLB advances.

A summary of short-term borrowings is as follows:

| <i>(dollars in thousands)</i> | As of December 31, | |
|---|--------------------|------------|
| | 2017 | 2016 |
| Repurchase agreements* – commercial customers | \$ 25,865 | \$ 39,151 |
| Short-term FHLB advances | 212,000 | 165,000 |
| Total short-term borrowings | \$ 237,865 | \$ 204,151 |

* Overnight repurchase agreements with no expiration date

[Table of Contents](#)

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

| <i>(dollars in thousands)</i> | As of or Twelve Months Ended December 31, | |
|---|---|------------|
| | 2017 | 2016 |
| Balance at period-end | \$ 237,865 | \$ 204,151 |
| Maximum amount outstanding at any month end | \$ 237,865 | \$ 204,151 |
| Average balance outstanding during the period | \$ 128,008 | \$ 37,041 |
| Weighted-average interest rate: | | |
| As of the period-end | 1.40% | 0.66% |
| Paid during the period | 1.09% | 0.25% |

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

B. Long-term FHLB Advances

As of December 31, 2017, and 2016, the Corporation had \$139.1 million and \$189.7 million, respectively, of long-term FHLB advances (original maturities exceeding one year).

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

| <i>(dollars in thousands)</i> | As of December 31, | |
|----------------------------------|--------------------|------------|
| | 2017 | 2016 |
| Within one year | \$ 83,766 | \$ 75,000 |
| Over one year through five years | 55,374 | 114,742 |
| Total | \$ 139,140 | \$ 189,742 |

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

| Description | Maturity Range ⁽¹⁾ | | Weighted Average Rate ⁽¹⁾ | Coupon Rate ⁽¹⁾ | | Balance at December 31, | |
|----------------------------------|-------------------------------|-----------|--------------------------------------|----------------------------|-------|-------------------------|------------|
| | From | To | | From | To | 2017 | 2016 |
| | Bullet maturity – fixed rate | 2/14/2018 | | 8/24/2021 | 1.63% | 1.05% | 2.13% |
| Bullet maturity – variable rate | N/A | N/A | N/A | N/A | N/A | — | 15,000 |
| Convertible-fixed ⁽²⁾ | 1/3/2018 | 8/20/2018 | 2.94% | 2.58% | 3.50% | 21,009 | 21,130 |
| Total | | | | | | \$ 139,140 | \$ 189,742 |

⁽¹⁾Maturity range, weighted average rate and coupon rate range refers to December 31, 2017 balances

⁽²⁾FHLB advances whereby the FHLB has the option, at predetermined times, to convert the fixed interest rate to an adjustable interest rate indexed to the London Interbank Offered Rate (“LIBOR”). The Corporation has the option to prepay these advances, without penalty, if the FHLB elects to convert the interest rate to an adjustable rate. As of December 31, 2017, substantially all FHLB advances with this convertible feature are subject to conversion in fiscal 2018. These advances are included in the maturity ranges in which they mature, rather than the period in which they are subject to conversion.

C. Other Borrowings Information

In connection with its FHLB borrowings, the Corporation is required to hold the capital stock of the FHLB. The amount of capital stock held was \$20.1 million at December 31, 2017, and \$17.3 million at December 31, 2016. The carrying amount of the FHLB stock approximates its redemption value.

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

The Corporation had a maximum borrowing capacity with the FHLB of \$1.37 billion as of December 31, 2017 of which the unused capacity was \$1.02 billion. In addition, there were \$79.0 million in the overnight federal funds line available and \$121.3 million of Federal Reserve Discount Window capacity.

Note 11 – Subordinated Notes

On December 13, 2017, the Corporation completed the issuance of \$70.0 million in aggregate principal amount of fixed-to-floating rate subordinated notes due 2027 (the "2027 Notes") in an underwritten public offering. The net proceeds of the offering, which totaled \$68.8 million, increased Tier II regulatory capital at the Corporation level. The Corporation intends to use the net proceeds for working capital and general corporate purposes, which may include, but not be limited to, investments in the Bank and our other subsidiaries for regulatory capital purposes. The debt issuance costs are included as a direct deduction from the debt liability and the costs are amortized to interest expense using the effective interest method.

The 2027 Notes bear interest at an annual fixed rate of 4.25% from the date of issuance until December 14, 2022, with the first interest payment occurring on June 15, 2018 and semi-annually thereafter each December 15 and June 15 through December 15, 2022. Thereafter, the 2027 Notes will bear interest at a variable rate that will reset quarterly to a level equal to the then-current three-month LIBOR rate plus 2.050% until December 15, 2027, or any early redemption date, payable quarterly on March 15, June 15, September 15 and December 15 of each year. Beginning with the interest payment date of December 15, 2022, and on any scheduled interest payment date thereafter, the Corporation has the option to redeem the 2027 Notes in whole or in part at a redemption price equal to 100% of the principal amount of the redeemed 2027 Notes, plus accrued and unpaid interest to the date of the redemption.

On August 6, 2015, the Corporation completed the issuance of \$30 million in aggregate principal amount of fixed-to-floating rate subordinated notes due 2025 (the "2025 Notes") in a private placement transaction to institutional accredited investors. The net proceeds of the offering, which totaled \$29.5 million, increased Tier II regulatory capital at the Corporation level. The debt issuance costs are included as a direct deduction from the debt liability and the costs are amortized to interest expense using the effective interest method.

The 2025 Notes bear interest at an annual fixed rate of 4.75% from the date of issuance until August 14, 2020, with the first interest payment occurring on February 15, 2016 and semi-annually thereafter each August 15 and February 15 through August 15, 2020. Thereafter, the 2025 Notes will bear interest at a variable rate that will reset quarterly to a level equal to the then-current three-month LIBOR rate plus 3.068% until August 15, 2025, or any early redemption date, payable quarterly on November 15, February 15, May 15 and August 15 of each year. Beginning with the interest payment date of August 15, 2020, and on any scheduled interest payment date thereafter, the Corporation has the option to redeem the 2025 Notes in whole or in part at a redemption price equal to 100% of the principal amount of the redeemed 2025 Notes, plus accrued and unpaid interest to the date of the redemption.

In conjunction with the issuance of the 2025 Notes, the Corporation engaged the Kroll Bond Rating Agency ("KBRA") to assign a senior unsecured long-term debt rating, a subordinated debt rating and a short-term rating to the Corporation. As a result of their evaluation, KBRA assigned the Corporation a senior unsecured debt rating of A-, a subordinated debt rating of BBB+ and a short-term debt rating of K2. The ratings shown remain in effect as of December 31, 2017.

Note 12 – Junior Subordinated Debentures

In connection with the RBPI Merger, the Corporation acquired Royal Bancshares Capital Trust I ("Trust I") and Royal Bancshares Capital Trust II ("Trust II") (collectively, the "Trusts"), which were utilized for the sole purpose of issuing and selling capital securities representing preferred beneficial interests. Although the Corporation owns \$774,000 of the common securities of Trust I and Trust II, the Trusts are not consolidated into the Corporation's consolidated financial statements as the Corporation is not deemed to be the primary beneficiary of these entities. In connection with the issuance and sale of the capital securities, RBPI issued, and the Corporation assumed as a result of the RBPI Merger, junior subordinated debentures to the Trusts of \$10.7 million each, totaling \$21.4 million representing the Corporation's maximum exposure to loss. The junior subordinated debentures incur interest at a coupon rate of 3.74% as of December 31, 2017. The rate resets quarterly based on 3-month LIBOR plus 2.15%.

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

[Table of Contents](#)

The rights of holders of common securities of the Trusts are subordinate to the rights of the holders of capital securities only in the event of a default; otherwise, the common securities' economic and voting rights are pari passu with the capital securities. The capital and common securities of the Trusts are subject to mandatory redemption upon the maturity or call of the junior subordinated debentures held by each. Unless earlier dissolved, the Trusts will dissolve on December 15, 2034. The junior subordinated debentures are the sole assets of Trusts, mature on December 15, 2034, and may be called at par by the Corporation any time after December 15, 2009. The Corporation records its investments in the Trusts' common securities of \$387,000 each as investments in unconsolidated entities and records dividend income upon declaration by Trust I and Trust II.

Note 13 - Derivatives and Hedging Activities

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

Customer Derivatives – Interest Rate Swaps. The Corporation enters into interest rate swaps that allow commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Corporation originates variable-rate loans with customers in addition to interest rate swap agreements, which serve to effectively swap the customers' variable-rate loans into fixed-rate loans. The Corporation then enters into corresponding swap agreements with swap dealer counterparties to economically hedge its exposure on the variable and fixed components of the customer agreements. The interest rate swaps with both the customers and third parties are not designated as hedges under FASB ASC 815 and are marked to market through earnings. As the interest rate swaps are structured to offset each other, changes to the underlying benchmark interest rates considered in the valuation of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit quality variations between counterparties, which may impact earnings as required by FASB ASC 820. As of December 31, 2017, there were no fair value adjustments related to credit quality.

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

The following tables detail the derivative instruments as of December 31, 2017 and December 31, 2016:

| | Asset Derivatives | | Liability Derivatives | |
|--|-------------------|------------|-----------------------|------------|
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| <i>(dollars in thousands)</i> | | | | |
| Derivatives not designated as hedging instruments | | | | |
| As of December 31, 2017: | | | | |
| Customer derivatives – interest rate swaps | \$ 124,627 | \$ 1,895 | \$ 124,627 | \$ 1,895 |
| Risk participation agreements sold | — | — | 899 | 3 |
| Risk participation agreements purchased | 14,710 | 21 | — | — |
| Total derivatives | \$ 139,337 | \$ 1,916 | \$ 125,526 | \$ 1,898 |
| As of December 31, 2016: | | | | |
| Customer derivatives – interest rate swaps | \$ — | \$ — | \$ — | \$ — |
| Risk participation agreements | — | — | — | — |
| Total derivatives | \$ — | \$ — | \$ — | \$ — |

[Table of Contents](#)

The Corporation has International Swaps and Derivatives Association agreements with third parties that requires a minimum dollar transfer amount upon a margin call. This requirement is dependent on certain specified credit measures. The amount of collateral posted with the third party at December 31, 2017 and December 31, 2016 was \$1.3 million and \$0, respectively. The amount of collateral posted with the third party is deemed to be sufficient to collateralize both the fair market value change as well as any additional amounts that may be required as a result of a change in the specified credit measures. The aggregate fair value of all derivative financial instruments in a liability position with credit measure contingencies and entered into with the third party was \$1.6 million and \$0 as of December 31, 2017 and December 31, 2016, respectively.

Note 14 – Disclosure about Fair Value of Financial Instruments

FASB ASC 825, “Disclosures about Fair Value of Financial Instruments” requires disclosure of the fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate such value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other market value techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The aggregate fair value amounts presented below do not represent the underlying value of the Corporation.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate their fair values.

Investment Securities

Fair values for investment securities are generally determined by management including the use of an independent third party based on market data, utilizing pricing models that vary by asset and incorporate available trade, bid and other market information. Management reviews, annually, the process utilized by its independent third-party valuation service provider. On a quarterly basis, management tests the validity of the prices provided by the third party by selecting a representative sample of the portfolio and obtaining actual trade results, or if actual trade results are not available, competitive broker pricing. On an annual basis, management evaluates, for appropriateness, the methodology utilized by the independent third-party valuation service provider.

Loans Held for Sale

The fair value of loans held for sale is based on pricing obtained from secondary markets.

Net Portfolio Loans and Leases

For variable rate loans that reprice frequently and which have no significant change in credit risk, estimated fair values are based on carrying values. Fair values of certain fixed rate mortgage loans and consumer loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality and is indicative of an entry price. The estimated fair value of nonperforming loans is based on discounted estimated cash flows as determined by the internal loan review of the Bank or the appraised market value of the underlying collateral, as determined by independent third party appraisers. This technique does not reflect an exit price.

Impaired Loans

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

[Table of Contents](#)

Other Real Estate Owned

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

Mortgage Servicing Rights

The fair value of the MSR for these periods was determined using a proprietary third-party valuation model that calculates the present value of estimated future servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds and discount rates. Due to the proprietary nature of the valuation model used and the lack of observable inputs, the Corporation classifies the value of MSR as using Level 3 inputs.

Other Assets

Due to their short-term nature, the carrying amounts of accrued interest receivable, income taxes receivable and other investments approximate their fair value.

Interest Rate Swaps and Risk Participation Agreements

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

Deposits

The fair values disclosed for non-interest-bearing demand deposits, savings, NOW accounts, and market rate accounts are, by definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying amounts). Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of expected monthly maturities on the certificates of deposit. FASB Codification 825 defines the fair value of demand deposits as the amount payable on demand, as of the reporting date, and prohibits adjusting estimated fair value from any value derived from retaining those deposits for an expected future period of time.

Short-term borrowings

Due to their short-term nature, the carrying amount of short-term borrowings, which include overnight repurchase agreements approximate their fair value.

FHLB Advances and Other Borrowings

The fair value of FHLB advances and other borrowings is established using a discounted cash flow calculation that applies interest rates currently being offered on mid-term and long-term borrowings.

Subordinated Notes

The fair value of the Notes is estimated by discounting the principal balance using the FHLB yield curve for the term to the call date as the Corporation has the option to call the Notes. The Notes are classified within Level 2 in the fair value hierarchy.

Junior subordinated debentures

Fair values of junior subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity.

Other Liabilities

The carrying amounts of accrued interest payable and other accrued payables approximate fair value. The fair value of the interest-rate swap derivative is derived from quoted prices for similar instruments in active markets and is classified as using Level 3 inputs.

Off-Balance Sheet Instruments

The fair values of the Corporation's commitments to extend credit, standby letters of credit and financial guarantees are not included in the table below as their carrying values generally approximate their fair values. These instruments generate fees that approximate those currently charged to originate similar commitments.

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

| | Fair Value Hierarchy Level* | As of December 31, | | | |
|--|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| | | 2017 | | 2016 | |
| | | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <i>(dollars in thousands)</i> | | | | | |
| Financial assets: | | | | | |
| Cash and cash equivalents | Level 1 | \$ 60,024 | \$ 60,024 | \$ 50,765 | \$ 50,765 |
| Investment securities - available for sale | See Note 15 | 689,202 | 689,202 | 566,996 | 566,996 |
| Investment securities - trading | See Note 15 | 4,610 | 4,610 | 3,888 | 3,888 |
| Investment securities – held to maturity | Level 2 | 7,932 | 7,851 | 2,879 | 2,818 |
| Loans held for sale | Level 2 | 3,794 | 3,794 | 9,621 | 9,621 |
| Net portfolio loans and leases | Level 3 | 3,268,333 | 3,293,802 | 2,517,939 | 2,505,546 |
| Mortgage servicing rights | Level 3 | 5,861 | 6,397 | 5,582 | 6,154 |
| Interest rate swaps | Level 2 | 1,895 | 1,895 | — | — |
| Risk participation agreements purchased | Level 2 | 21 | 21 | — | — |
| Other assets | Level 3 | 46,799 | 46,799 | 34,465 | 34,465 |
| Total financial assets | | \$ 4,088,471 | \$ 4,114,395 | \$ 3,192,135 | \$ 3,180,253 |
| Financial liabilities: | | | | | |
| Deposits | Level 2 | \$ 3,373,798 | \$ 3,368,276 | \$ 2,579,675 | \$ 2,579,011 |
| Short-term borrowings | Level 2 | 237,865 | 237,865 | 204,151 | 204,151 |
| Long-term FHLB advances | Level 2 | 139,140 | 138,685 | 189,742 | 186,863 |
| Subordinated notes | Level 2 | 98,416 | 95,044 | 29,532 | 29,228 |
| Junior subordinated debentures | Level 2 | 21,416 | 19,366 | — | — |
| Interest rate swaps | Level 2 | 1,895 | 1,895 | — | — |
| Risk participation agreements sold | Level 2 | 3 | 3 | — | — |
| Other liabilities | Level 3 | 49,071 | 49,071 | 37,303 | 37,303 |
| Total financial liabilities | | \$ 3,921,604 | \$ 3,910,205 | \$ 3,040,403 | \$ 3,036,556 |

*See Note 15 in the Notes to consolidated financial statements for a description of hierarchy levels.

Note 15 - Fair Value Measurement

FASB ASC 820, "Fair Value Measurement" establishes a fair value hierarchy based on the nature of data inputs for fair value determinations, under which the Corporation is required to value each asset using assumptions that market participants would utilize to value that asset. When the Corporation uses its own assumptions, it is required to disclose additional information about the assumptions used and the effect of the measurement on earnings or the net change in assets for the period.

The value of the Corporation's available for sale investment securities, which include obligations of the U.S. government and its agencies, mortgage-backed securities issued by U.S. government- and U.S. government sponsored agencies, obligations of state and political subdivisions, corporate bonds, other debt securities, as well as bond mutual funds are determined by the Corporation, including the use of an independent third party. Management performs tests to assess the validity of these third-party values. The third party's evaluations are based on market data. They utilize pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, their pricing models apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (only obtained from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bid, offers and reference data. For certain securities, additional inputs may be used or some market inputs may not be applicable. Inputs are prioritized differently on any given day based on market conditions.

[Table of Contents](#)

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

The value of the investment portfolio is determined using three broad levels of inputs:

Level 1 – Quoted prices in active markets for identical securities.

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

Level 3 – Instruments whose significant value drivers are unobservable.

These levels are not necessarily an indication of the risks or liquidity associated with these investments. The following tables summarize the assets at December 31, 2017 and 2016 that are recognized on the Corporation's Consolidated Balance Sheets using fair value measurement determined based on the differing levels of input.

Fair value of assets measured on a recurring basis as of December 31, 2017:

| <i>(dollars in millions)</i> | Total | Level 1 | Level 2 | Level 3 |
|--|----------|----------|----------|---------|
| Investment securities (available for sale and trading): | | | | |
| U.S. Treasury securities | \$ 200.1 | \$ 200.1 | \$ — | \$ — |
| Obligations of U.S. government & agencies | 151.0 | — | 151.0 | — |
| Obligations of state & political subdivisions | 21.3 | — | 21.3 | — |
| Mortgage-backed securities | 275.0 | — | 275.0 | — |
| Collateralized mortgage obligations | 36.7 | — | 36.7 | — |
| Mutual funds | 8.1 | 8.1 | — | — |
| Other debt securities | 1.6 | — | 1.6 | — |
| Interest rate swaps | 1.9 | — | 1.9 | — |
| Total assets measured on a recurring basis at fair value | \$ 695.7 | \$ 208.2 | \$ 487.5 | \$ — |

Fair value of assets measured on a non-recurring basis as of December 31, 2017:

| <i>(dollars in millions)</i> | Total | Level 1 | Level 2 | Level 3 |
|--|---------|---------|---------|---------|
| Mortgage servicing rights | \$ 6.4 | \$ — | \$ — | \$ 6.4 |
| Impaired loans and leases | 14.0 | — | — | 14.0 |
| OREO | 0.3 | — | — | 0.3 |
| Total assets measured at fair value on a non-recurring basis | \$ 20.7 | \$ — | \$ — | \$ 20.7 |

Fair value of assets measured on a recurring basis as of December 31, 2016:

| <i>(dollars in millions)</i> | Total | Level 1 | Level 2 | Level 3 |
|--|----------|----------|----------|---------|
| Investment securities (available for sale and trading): | | | | |
| U.S. Treasury securities | \$ 200.1 | \$ 200.1 | \$ — | \$ — |
| Obligations of U.S. government & agencies | 82.2 | — | 82.2 | — |
| Obligations of state & political subdivisions | 33.5 | — | 33.5 | — |
| Mortgage-backed securities | 188.8 | — | 188.8 | — |
| Collateralized mortgage obligations | 48.7 | — | 48.7 | — |
| Mutual funds | 19.1 | 19.1 | — | — |
| Other debt securities | 1.3 | — | 1.3 | — |
| Total assets measured on a recurring basis at fair value | \$ 573.7 | \$ 219.2 | \$ 354.5 | \$ — |

[Table of Contents](#)

Fair value of assets measured on a non-recurring basis as of December 31, 2016:

| <i>(dollars in millions)</i> | Total | Level 1 | Level 2 | Level 3 |
|--|----------------|-------------|-------------|----------------|
| Mortgage servicing rights | \$ 6.2 | \$ — | \$ — | \$ 6.2 |
| Impaired loans and leases | 14.3 | — | — | 14.3 |
| OREO | 1.0 | — | — | 1.0 |
| Total assets measured at fair value on a non-recurring basis | <u>\$ 21.5</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 21.5</u> |

For the twelve months ended December 31, 2017, a net increase of \$175 thousand in the Allowance was recorded and for the twelve months ended December 31, 2016, a net decrease of \$607 thousand in the Allowance was recorded as a result of adjusting the carrying value and estimated fair value of the impaired loans in the above tables. As it relates to the fair values of assets measured on a recurring basis, there have been no transfers between levels during the twelve months ended December 31, 2017.

Note 16 - 401(K) Plan and Other Defined Contribution Plans

The Corporation has a qualified defined contribution plan (the "401(K) Plan") for all eligible employees, under which the Corporation matches employee contributions up to a maximum of 3.0% of the employee's base salary. The Corporation recognized expense for matching contributions to the 401(K) Plan of \$1.2 million, \$1.0 million, and \$920 thousand for the twelve months ended December 31, 2017, 2016 and 2015, respectively.

In addition to the matching contribution above, the Corporation provides a discretionary, non-matching employer contribution to the 401(K) Plan. The Corporation recognized expense for the non-matching discretionary contributions of \$489 thousand, \$126 thousand, and \$1.3 million for the twelve months ended December 31, 2017, 2016 and 2015, respectively. In connection with the December 31, 2015 settlement of the Qualified Defined Benefit Plan, \$2.3 million of excess assets were transferred to the Corporation's 401(K) plan. As a result, the expense recorded for the non-matching discretionary contribution for the twelve months ended December 31, 2015 was significantly higher, as compared to the succeeding two years.

On June 28, 2013, the Corporation adopted the Bryn Mawr Bank Corporation Executive Deferred Compensation Plan (the "EDCP"), a non-qualified defined-contribution plan which was restricted to certain senior officers of the Corporation. The intended purpose of the EDCP is to provide deferred compensation to a select group of employees. The Corporation recognized expense for contributions to the EDCP of \$238 thousand, \$272 thousand, and \$164 thousand for the twelve months ended December 31, 2017, 2016 and 2015, respectively.

Note 17 - Pension and Postretirement Benefit Plans

A. General Overview – Prior to December 31, 2015, the Corporation had three defined-benefit pension plans comprised of a qualified defined benefit plan (the "QDBP") which covered all employees over age 20 1/2 who met certain service requirements, and two non-qualified defined-benefit supplemental executive retirement plans ("SERP I" and "SERP II") which are restricted to certain senior officers of the Corporation.

On May 29, 2015, by unanimous consent, the Board of Directors of the Corporation voted to settle the QDBP. On June 2, 2015, notices were sent to participants informing them of the settlement. Final distributions to participants were completed by December 31, 2015. As a result of the settlement of the QDBP, a loss on pension settlement of \$17.4 million was recorded for the twelve months ended December 31, 2015.

SERP I provides each participant with the equivalent pension benefit provided by the QDBP on any compensation and bonus deferrals that exceed the IRS limit applicable to the QDBP.

On February 12, 2008, the Corporation amended the QDBP and SERP I to freeze further increases in the defined benefit amounts to all participants, effective March 31, 2008.

On April 1, 2008, the Corporation added SERP II, a non-qualified defined benefit plan which was restricted to certain senior officers of the Corporation. Effective March 31, 2013, the Corporation curtailed SERP II, as further increases to the defined benefit amounts to over 20% of the participants were frozen.

The Corporation also has a postretirement benefit plan ("PRBP") that covers certain retired employees and a group of current employees. The PRBP was closed to new participants in 1994. In 2007, the Corporation amended the PRBP to allow for settlement of obligations to certain current and retired employees. Certain retired participant obligations were settled in 2007 and current employee obligations were settled in 2008.

[Table of Contents](#)

The following table provides information with respect to our QDBP, SERP, and PRBP, including benefit obligations and funded status, net periodic pension costs, plan assets, cash flows, amortization information and other accounting items.

B. Actuarial Assumptions used to determine benefit obligations as of December 31 of the years indicated:

| | QDBP | | SERP I and SERP II | | PRBP | |
|--|------|------|--------------------|-------|-------|-------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Discount rate | N/A | N/A | 3.30% | 3.75% | 2.75% | 2.80% |
| Rate of increase for future compensation | N/A | N/A | N/A | N/A | N/A | N/A |
| Expected long-term rate of return on plan assets | N/A | N/A | N/A | N/A | N/A | N/A |

C. Changes in Benefit Obligations and Plan Assets:

| | QDBP | | SERP I & SERP II | | PRBP | |
|---|------|--------|------------------|------------|----------|----------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| <i>(dollars in thousands)</i> | | | | | | |
| Change in benefit obligations | | | | | | |
| Benefit obligation at January 1 | \$ — | \$ 169 | \$ 4,786 | \$ 4,830 | \$ 418 | \$ 493 |
| Service cost | — | — | — | — | — | — |
| Interest cost | — | — | 176 | 184 | 11 | 17 |
| Plan participants contribution | — | — | — | — | 44 | 49 |
| Actuarial loss (gain) | — | — | 282 | 32 | (9) | (6) |
| Settlements | — | — | — | — | — | — |
| Benefits paid | — | (169) | (261) | (260) | (111) | (135) |
| Benefit obligation at December 31 | \$ — | \$ — | \$ 4,983 | \$ 4,786 | \$ 353 | \$ 418 |
| Change in plan assets | | | | | | |
| Fair value of plan assets at January 1 | \$ — | \$ 169 | \$ — | \$ — | \$ — | \$ — |
| Actual return on plan assets | — | — | — | — | — | — |
| Settlements | — | — | — | — | — | — |
| Excess assets transferred to defined contribution plan | — | — | — | — | — | — |
| Employer contribution | — | — | 261 | 260 | 67 | 86 |
| Plan participants' contribution | — | — | — | — | 44 | 49 |
| Benefits paid | — | (169) | (261) | (260) | (111) | (135) |
| Fair value of plan assets at December 31 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Funded status at year end (plan assets less benefit obligations) | \$ — | \$ — | \$ (4,983) | \$ (4,786) | \$ (353) | \$ (418) |

| | For the Twelve Months Ended December 31, | | | | | |
|--|--|------|------------------|------------|----------|----------|
| | QDBP | | SERP I & SERP II | | PRBP | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Amounts included in the Consolidated Balance Sheet as | | | | | | |
| Other assets (liabilities) and accumulated other comprehensive income including the following: | | | | | | |
| Prepaid benefit cost/(accrued liability) | \$ — | \$ — | \$ (3,221) | \$ (3,248) | \$ (149) | \$ (170) |
| Net actuarial loss | — | — | (1,762) | (1,539) | (204) | (248) |
| Prior service cost | — | — | — | — | — | — |
| Unrecognized net initial obligation | — | — | — | — | — | — |
| Net included in Other liabilities in the Consolidated Balance Sheets | \$ — | \$ — | \$ (4,983) | \$ (4,787) | \$ (353) | \$ (418) |

D. The following tables provide the components of net periodic pension costs for the periods indicated:

| QDBP Net Periodic Pension Cost <i>(dollars in thousands)</i> | For the Twelve Months Ended December 31, | | |
|--|---|-------------|------------------|
| | 2017 | 2016 | 2015 |
| Service cost | \$ — | \$ — | \$ — |
| Interest cost | — | — | 1,589 |
| Expected return on plan assets | — | — | (3,217) |
| Amortization of prior service cost | — | — | — |
| Recognition of net actuarial loss | — | — | 1,913 |
| Recognition of net actuarial loss due to settlement | — | — | 17,377 |
| Net periodic pension cost | \$ — | \$ — | \$ 17,662 |

| SERP I and SERP II Periodic Pension Cost <i>(dollars in thousands)</i> | For the Twelve Months Ended December 31, | | |
|--|---|---------------|---------------|
| | 2017 | 2016 | 2015 |
| Service cost | \$ — | \$ — | \$ — |
| Interest cost | 176 | 184 | 184 |
| Amortization of prior service cost | — | — | — |
| Recognition of net actuarial loss | 59 | 57 | 63 |
| Net periodic pension cost | \$ 235 | \$ 241 | \$ 247 |

| PRBP Net Periodic Pension Cost <i>(dollars in thousands)</i> | For the Twelve Months Ended December 31, | | |
|--|---|--------------|--------------|
| | 2017 | 2016 | 2015 |
| Service cost | \$ — | \$ — | \$ — |
| Interest cost | 11 | 17 | 18 |
| Amortization of prior service cost | — | — | — |
| Recognition of net actuarial loss | 36 | 41 | 37 |
| Net periodic pension cost | \$ 47 | \$ 58 | \$ 55 |

| Discount Rate Used in the Calculation of Periodic Pension Costs | For the Twelve Months Ended December 31, | | |
|--|---|-------------|-------------|
| | 2017 | 2016 | 2015 |
| SERP I and SERP II | 3.75% | 3.90% | 3.70% |
| PRBP | 2.80% | 3.90% | 3.70% |

E. Plan Assets:

The PRBP, SERP I and SERP II are unfunded plans and, as such, have no related plan assets.

F. Cash Flows

The following benefit payments, which reflect expected future service, are expected to be paid over the next ten years:

| <i>(dollars in thousands)</i> | SERP I & SERP II | | PRBP | |
|-------------------------------|-----------------------------|-------|-------------|-----|
| Fiscal year ending | | | | |
| 2018 | \$ | 260 | \$ | 67 |
| 2019 | \$ | 259 | \$ | 58 |
| 2020 | \$ | 258 | \$ | 51 |
| 2021 | \$ | 255 | \$ | 43 |
| 2022 | \$ | 283 | \$ | 37 |
| 2023-2027 | \$ | 1,751 | \$ | 105 |

G. Other Pension and Post Retirement Benefit Information

In 2005, the Corporation placed a cap on the future annual benefit payable through the PRBP. This cap is equal to 120% of the 2005 annual benefit.

H. Expected Contribution to be Paid in the Next Fiscal Year

The 2018 expected contribution for the SERP I and SERP II is \$260 thousand.

I. Actuarial Losses

As indicated in section C of this footnote, the Corporation's pension plans had cumulative actuarial losses as of December 31, 2017 that will result in an increase in the Corporation's future pension expense because such losses at each measurement date exceed 10% of the greater of the projected benefit obligation or the market-related value of the plan assets. In accordance with GAAP, net unrecognized gains or losses that exceed that threshold are required to be amortized over the expected service period of active employees, and are included as a component of net pension cost. Amortization of these net actuarial losses has the effect of increasing the Corporation's pension costs as shown on the table in section D of this footnote.

Note 18 – Accumulated Other Comprehensive Loss

The following table details the components of accumulated other comprehensive (loss) income for the twelve months ended December 31, 2017, 2016 and 2015:

| <i>(dollars in thousands)</i> | Net Change in Unrealized Gains on Available-for- Sale Investment Securities | Net Change in Fair Value of Derivative Used for Cash Flow Hedge | Net Change in Unfunded Pension Liability | Accumulated Other Comprehensive Loss |
|---|--|--|---|---|
| Balance, December 31, 2014 | \$ 1,316 | \$ (25) | \$ (12,995) | \$ (11,704) |
| Other comprehensive (loss) income | (542) | 25 | 11,809 | 11,292 |
| Balance, December 31, 2015 | <u>\$ 774</u> | <u>\$ —</u> | <u>\$ (1,186)</u> | <u>\$ (412)</u> |
| Balance, December 31, 2015 | \$ 774 | \$ — | \$ (1,186) | \$ (412) |
| Other comprehensive (loss) income | (2,005) | — | 8 | (1,997) |
| Balance, December 31, 2016 | <u>\$ (1,231)</u> | <u>\$ —</u> | <u>\$ (1,178)</u> | <u>\$ (2,409)</u> |
| Balance, December 31, 2016 | \$ (1,231) | \$ — | \$ (1,178) | \$ (2,409) |
| Other comprehensive (loss) income | (1,123) | — | (100) | (1,223) |
| Reclassification due to the adoption of ASU No. 2018-02 | (507) | — | (275) | (782) |
| Balance, December 31, 2017 | <u>\$ (2,861)</u> | <u>\$ —</u> | <u>\$ (1,553)</u> | <u>\$ (4,414)</u> |

[Table of Contents](#)

The following tables detail the amounts reclassified from each component of accumulated other comprehensive loss for the twelve months ended December 31, 2017, 2016 and 2015:

| Description of Accumulated Other Comprehensive Loss Component | Amount Reclassified from Accumulated Other Comprehensive Loss For the Twelve Months Ended December 31, | | | Affected Income Statement Category |
|--|--|----------------|------------------|---|
| | 2017 | 2016 | 2015 | |
| Net unrealized gain on investment securities available for sale: | | | | |
| Realization of (loss) gain on sale of investment securities available for sale | \$ 101 | \$ (77) | \$ 931 | Net gain (loss) on sale of available for sale investment securities |
| Less: income tax (expense) benefit | (35) | 27 | (326) | Less: income tax benefit (expense) |
| Net of income tax | <u>\$ 66</u> | <u>\$ (50)</u> | <u>\$ 605</u> | Net of income tax |
| Cash flow hedge: | | | | |
| Realized loss on cash flow hedge | \$ — | \$ — | \$ (611) | Other operating expenses |
| Less: income tax benefit | — | — | 214 | Less: income tax benefit |
| Net of income tax | <u>\$ —</u> | <u>\$ —</u> | <u>\$ (397)</u> | Net of income tax |
| Unfunded pension liability: | | | | |
| Amortization of net loss included in net periodic pension costs* | \$ 95 | \$ 98 | \$ 2,013 | Employee benefits |
| Settlement of pension plan settlement | — | — | 17,377 | Loss on pension plan settlement |
| Amortization of prior service cost included in net periodic pension costs* | — | — | — | Employee benefits |
| Gain on curtailment of SERP II | — | — | — | Net gain on curtailment of nonqualified pension plan |
| Total | \$ 95 | \$ 98 | \$ 19,390 | Total expense before income tax benefit |
| Less: income tax benefit | 33 | 34 | 6,787 | Less: income tax benefit |
| Net of income tax | <u>\$ 62</u> | <u>\$ 64</u> | <u>\$ 12,603</u> | Net of income tax |

*Accumulated other comprehensive loss components are included in the computation of net periodic pension cost. See Note 17 - Pension and Other Post-Retirement Benefit Plans.

Note 19 – Income Taxes

A. Components of Net Deferred Tax Asset:

| <i>(dollars in thousands)</i> | December 31, | |
|--|------------------|------------------|
| | 2017 | 2016 |
| Deferred tax assets: | | |
| Loan and lease loss reserve | \$ 3,948 | \$ 6,492 |
| Other reserves | 3,169 | 3,611 |
| Net operating loss carry-forward | 11,113 | 471 |
| Alternative minimum tax credits | 1,116 | 567 |
| Unrealized depreciation of available for sale securities | 761 | 663 |
| Defined benefit plans | 1,361 | 2,068 |
| RBPI Merger Fair Values | 4,726 | — |
| Total deferred tax asset | <u>\$ 26,194</u> | <u>\$ 13,872</u> |
| Deferred tax liabilities: | | |
| Other reserves | \$ 19 | \$ 52 |
| Originated MSRs | 1,253 | 1,969 |
| Amortizing fair value adjustments | 970 | 1,336 |
| Other | 53 | — |
| Total deferred tax liability | <u>\$ 2,295</u> | <u>\$ 3,357</u> |
| Total net deferred tax asset | <u>\$ 23,899</u> | <u>\$ 10,515</u> |

Not included in the table above are deferred tax assets for state net operating losses and unrealized capital losses for partnership investments and their respective valuation allowance of \$211 thousand and \$445 thousand. The state net operating losses of our leasing subsidiary as of December 31, 2017 will expire between 2023 and 2036.

As a result of the RBPI Merger, deferred tax assets were initially increased by \$33.1 million related to purchase accounting adjustments and net deferred tax assets carried over from RBPI.

B. The provision (benefit) for income taxes consists of the following:

| <i>(dollars in thousands)</i> | December 31, | | |
|-------------------------------|------------------|------------------|-----------------|
| | 2017 | 2016 | 2015 |
| Current | \$ 13,812 | \$ 16,492 | \$ 12,006 |
| Deferred | 20,418 | 1,676 | (2,834) |
| Total | <u>\$ 34,230</u> | <u>\$ 18,168</u> | <u>\$ 9,172</u> |

C. Applicable income taxes differed from the amount derived by applying the statutory federal tax rate to income as follows:

| <i>(dollars in thousands)</i> | 2017 | | 2016 | | 2015 | |
|---|------------------|--------------|------------------|--------------|-----------------|--------------|
| | | Tax Rate | | Tax Rate | | Tax Rate |
| Computed tax expense at statutory federal rate | \$ 20,036 | 35.0% | \$ 18,972 | 35.0% | \$ 9,074 | 35.0% |
| Tax-exempt income | (600) | (1.0) | (758) | (1.4) | (622) | (2.4) |
| State tax (net of federal tax benefit) | 303 | 0.5 | 425 | 0.8 | 299 | 1.2 |
| Non-deductible merger expense | 455 | 0.8 | — | — | 105 | 0.4 |
| Excess tax benefit – stock based compensation | (1,049) | (1.8) | (565) | (1.0) | — | — |
| Adjustment to net deferred tax assets for enacted changes in tax laws and rates | 15,193 | 26.5 | — | — | — | — |
| Other, net | (108) | (0.2) | 94 | 0.1 | 316 | 1.2 |
| Total income tax expense | <u>\$ 34,230</u> | <u>59.8%</u> | <u>\$ 18,168</u> | <u>33.5%</u> | <u>\$ 9,172</u> | <u>35.4%</u> |

D. Tax Law Changes – Impact to Tax Expense

With the enactment of the Tax Cuts and Jobs Act (“Tax Reform” or the “Tax Act”) on December 22, 2017, the federal corporate income tax rate was reduced from 35% to 21% effective January 1, 2018. The Corporation’s 2017 financial results included a charge of \$15.2 million to income tax expense, primarily resulting from re-measuring the Corporation’s net deferred tax assets to reflect the recently enacted lower tax rate effective January 1, 2018.

Under ASC 740, Income Taxes, the effect of income tax law changes on deferred taxes should be recognized as a component of income tax expense related to continuing operations in the period in which the law is enacted. This requirement applies not only to items initially recognized in continuing operations, but also to items initially recognized in other comprehensive income. As a result of the reduction in the U.S. federal statutory income tax rate, we recognized a net income tax expense totaling \$15.2 million, determined as follows:

Components of Provisional Tax Expense Related to Tax Law Changes

(dollars in thousands)

| | | |
|---|----|---------------|
| Deferred taxes related to items recognized in continuing operations | \$ | 14,410 |
| Deferred taxes on net actuarial loss on defined benefit post-retirement benefit plans | | 275 |
| Deferred taxes on net unrealized losses on available for sale investment securities | | 507 |
| | \$ | <u>15,192</u> |

Because ASC 740 requires the effect of income tax law changes on deferred taxes to be recognized as a component of income tax expense related to continuing operations rather than backward tracing the adjustment through the accumulated other comprehensive income component of shareholders’ equity, the net adjustment to deferred taxes detailed above included a net expense totaling \$782 thousand related to items recognized in other comprehensive income.

E. Other Income Tax Information

In accordance with the provisions of ASC 740, “Accounting for Uncertainty in Income Taxes”, management recognizes the financial statement benefit of a tax position only after determining that the Corporation would more likely than not sustain the position following an examination. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon settlement with the relevant tax authority. Management applied these criteria to tax positions for which the statute of limitations remained open.

There were no reserves for uncertain tax positions recorded during the twelve months ended December 31, 2017, 2016 or 2015.

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

The Corporation’s policy is to record interest and penalties on uncertain tax positions as income tax expense. No interest or penalties were accrued in 2017.

As of December 31, 2017, the Corporation has net operating loss (“NOL”) carry-forwards for federal income tax purposes of \$52.9 million, of which approximately \$40 thousand was related to the 2010 merger with First Keystone Financial, Inc. (“FKF”) and is available to offset future federal taxable income through 2030. The remaining \$52.9 million of federal net operating loss carry-forwards are a result of the RBPI Merger which are subject to an annual usage limitation of approximately \$2.7 million. Management estimates it will be able to utilize an additional \$6.0 million per year of the NOLs acquired in the RBPI Merger for a five-year period subsequent to December 15, 2017 due to the existence of net unrealized built-in gains (“NUBIG”) under IRC Section 382, these NOLs will begin to expire in 2030. In addition, the Corporation has alternative minimum tax (“AMT”) credits of \$1.1 million, approximately \$548 thousand of which are related to the RBPI Merger. The credit amounts do not expire. The amount of AMT credits that can be used per year are limited under IRC section 383. The Corporation has determined that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax asset related to these amounts.

As a result of the July 1, 2010 merger with FKF, the Corporation succeeded to \$2.5 million of tax bad debt reserves that existed at FKF as of June 30, 2010. As of December 31, 2017, the Corporation has not recognized a deferred income tax liability with respect to these reserves. These reserves could be recognized as taxable income and create a current and/or deferred tax liability at the income tax rates then in effect if one of the following conditions occurs: (1) the Bank’s retained earnings represented by this reserve are used for distributions, in liquidation, or for any other purpose other than to absorb losses from bad debts; (2) the Bank fails to qualify as a bank, as provided by the Internal Revenue Code; or (3) there is a change in federal tax law.

Note 20 - Stock-Based Compensation

A. General Information

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

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

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

The equity awards are authorized to be in the form of, among others, options to purchase the Corporation's common stock, restricted stock awards or units ("RSAs" or "RSUs") and performance stock awards or units ("PSAs" or "PSUs").

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

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

The following table summarizes the remaining shares authorized to be granted under the 2010 LTIP:

| | Shares Authorized for Grant |
|--|--|
| Balance, December 31, 2014 | 182,843 |
| Shares authorized for grant under shareholder approved plans | 500,000 |
| Grants of RSUs | (24,514) |
| Grants of PSUs | (92,474) |
| Expiration of unexercised options | 3,180 |
| Non-vesting PSAs* | 25,929 |
| Forfeitures of PSAs and PSUs | 22,801 |
| Balance, December 31, 2015 | <u>617,765</u> |
| Grants of RSUs | (33,142) |
| Grants of PSUs | (45,346) |
| Expiration of unexercised options | — |
| Non-vesting PSUs* | 10,088 |
| Forfeitures of PSUs | 2,344 |
| Forfeitures of RSUs | 1,250 |
| Balance, December 31, 2016 | <u>552,959</u> |
| Grants of RSUs | (40,137) |
| Grants of PSUs | (41,323) |
| Expiration of unexercised options | 250 |
| Non-vesting PSUs* | — |
| Forfeitures of PSUs | 3,899 |
| Forfeitures of RSUs | 4,305 |
| Balance, December 31, 2017 | <u>479,953</u> |

* Non-vesting PSAs and PSUs represent awards that did not meet their performance criteria, were cancelled and are available for future grant.

B. Fair Value of Options Granted

In connection with the CBH Merger, 181,256 fully vested options, with a value of \$2.3 million which had been granted to former CBH employees and directors, were assumed by the Corporation.

No other stock options were granted or assumed during the twelve-month periods ended December 31, 2017, 2016 and 2015.

C. Other Stock Option Information – The following table provides information about options outstanding:

| | For the Twelve Months Ended December 31, | | | | | | | | |
|--|--|--|---------|---------------------------------|--|---------|---------------------------------|--|---------|
| | 2017 | | | 2016 | | | 2015 | | |
| Shares | Weighted Average Exercise Price | Weighted Average Grant Date Fair Value | Shares | Weighted Average Exercise Price | Weighted Average Grant Date Fair Value | Shares | Weighted Average Exercise Price | Weighted Average Grant Date Fair Value | |
| Options outstanding, beginning of period | 185,023 | \$ 21.04 | \$ 4.88 | 290,853 | \$ 20.88 | \$ 4.85 | 447,966 | \$ 20.94 | \$ 4.75 |
| Assumed in the CBH Merger | — | \$ — | \$ — | — | \$ — | \$ — | 181,256 | \$ 17.73 | \$ — |
| Expired | (250) | \$ 22.00 | \$ 4.90 | — | \$ — | \$ — | (3,180) | \$ 21.33 | \$ 4.84 |
| Exercised | (69,527) | \$ 21.55 | \$ 4.91 | (105,830) | \$ 20.61 | \$ 7.32 | (335,189) | \$ 19.25 | \$ 4.62 |
| Options outstanding, end of period | <u>115,246</u> | \$ 20.73 | \$ 4.86 | <u>185,023</u> | \$ 21.04 | \$ 4.88 | <u>290,853</u> | \$ 20.88 | \$ 4.85 |

The following table provides information related to options as of December 31, 2017:

| Range of Exercise Prices | Options Outstanding and Exercisable | Remaining Contractual Life (in years) | Weighted Average Exercise Price* |
|-----------------------------------|-------------------------------------|---------------------------------------|----------------------------------|
| \$10.36 to \$17.15 | 1,383 | 1.21 | \$ 12.58 |
| \$17.16 to \$18.30 | 65,050 | 1.64 | 18.27 |
| \$18.31 to \$21.30 | 563 | 6.05 | 18.33 |
| \$21.31 to \$24.27 | 48,250 | 0.63 | 24.27 |
| Total Outstanding and Exercisable | <u>115,246</u> | | |

*Price of exercisable options

[Table of Contents](#)

For the years ended December 31, 2017, 2016, and 2015 there are no unvested options:

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

| | For the Twelve Months Ended December 31, | | |
|--|--|----------|----------|
| | 2017 | 2016 | 2015 |
| <i>(dollars in thousands)</i> | | | |
| Proceeds from strike price of value of options exercised | \$ 1,498 | \$ 2,181 | \$ 6,452 |
| Related tax benefit recognized | 506 | 256 | 515 |
| Proceeds of options exercised | \$ 2,004 | \$ 2,437 | \$ 6,967 |
| Intrinsic value of options exercised | \$ 1,445 | \$ 1,125 | \$ 3,615 |

The following table provides information about options outstanding and exercisable options:

| | As of December 31, | | | | | |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2017 | | 2016 | | 2015 | |
| | Options Outstanding | Exercisable Options | Options Outstanding | Exercisable Options | Options Outstanding | Exercisable Options |
| Number | 115,246 | 115,246 | 185,023 | 185,023 | 290,853 | 290,853 |
| Weighted average exercise price | \$ 20.73 | \$ 20.73 | \$ 21.03 | \$ 21.03 | \$ 20.88 | \$ 20.88 |
| Aggregate intrinsic value | \$ 2,704,824 | \$ 2,704,824 | \$ 3,907,758 | \$ 3,907,758 | \$ 2,280,288 | \$ 2,280,288 |
| Weighted average contractual term | 1.2 yrs | 1.2 yrs | 2.0 yrs | 2.0 yrs | 2.9 yrs | 2.9 yrs |

As of December 31, 2017, all compensation expense related to stock options has been recognized.

D. Restricted Stock and Performance Stock Awards and Units

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

RSAs and RSUs

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

For the twelve months ended December 31, 2017, the Corporation recognized \$752 thousand of expense related to the Corporation's RSAs and RSUs. As of December 31, 2017, there was \$2.0 million of unrecognized compensation cost related to RSAs and RSUs. This cost will be recognized over a weighted average period of 2.3 years.

[Table of Contents](#)

The following table details the RSAs and RSUs for the twelve-month periods ended December 31, 2017, 2016 and 2015:

| | Twelve Months Ended December 31, 2017 | | Twelve Months Ended December 31, 2016 | | Twelve Months Ended December 31, 2015 | |
|-------------------|--|---|--|---|--|---|
| | Number of Shares | Weighted Average Grant Date Fair Value | Number of Shares | Weighted Average Grant Date Fair Value | Number of Shares | Weighted Average Grant Date Fair Value |
| Beginning balance | 58,862 | \$ 29.57 | 42,802 | \$ 28.58 | 46,281 | \$ 23.17 |
| Granted | 40,137 | \$ 41.23 | 33,142 | \$ 29.67 | 24,514 | \$ 29.83 |
| Vested | (18,987) | \$ 29.40 | (15,832) | \$ 27.14 | (27,993) | \$ 20.73 |
| Forfeited | (4,305) | \$ 29.54 | (1,250) | \$ 29.12 | — | \$ — |
| Ending balance | <u>75,707</u> | \$ 35.80 | <u>58,862</u> | \$ 29.57 | <u>42,802</u> | \$ 28.58 |

PSAs and PSUs

The compensation expense for PSAs and PSUs is measured based on their grant date fair value as calculated using the Monte Carlo Simulation and is recognized on a straight-line basis over the vesting period. The grant date fair value of each grant was determined independently using the Monte Carlo Simulation. Assumptions used in the Monte Carlo Simulation for the grant of 21,330 PSUs, whose performance is based on TSR, in August 2017, included expected volatility of 20.91% and a risk-free rate of interest of 1.43%.

The Corporation recognized \$1.3 million of expense related to the PSUs for the twelve months ended December 31, 2017. As of December 31, 2017, there was \$2.5 million of unrecognized compensation cost related to PSUs. This cost will be recognized over a weighted average period of 1.8 years.

The following table details the PSAs and PSUs for the twelve-month periods ending December 31, 2017, 2016 and 2015:

| | Twelve Months Ended December 31, 2017 | | Twelve Months Ended December 31, 2016 | | Twelve Months Ended December 31, 2015 | |
|-------------------|--|---|--|---|--|---|
| | Number of Shares | Weighted Average Grant Date Fair Value | Number of Shares | Weighted Average Grant Date Fair Value | Number of Shares | Weighted Average Grant Date Fair Value |
| Beginning balance | 192,844 | \$ 18.77 | 216,820 | \$ 15.07 | 217,318 | \$ 13.41 |
| Granted | 41,323 | \$ 37.86 | 45,346 | \$ 28.34 | 92,474 | \$ 16.42 |
| Vested | (61,815) | \$ 15.05 | (56,890) | \$ 13.38 | (44,242) | \$ 11.80 |
| Non-vesting* | — | \$ — | (10,088) | \$ 13.38 | (25,929) | \$ 11.80 |
| Forfeited | (3,899) | \$ 21.45 | (2,344) | \$ 15.37 | (22,801) | \$ 14.75 |
| Ending balance | <u>168,453</u> | \$ 24.76 | <u>192,844</u> | \$ 18.77 | <u>216,820</u> | \$ 15.07 |

* Non-vesting PSAs represent PSAs that did not meet their performance criteria, and were therefore cancelled. The associated expense, however, was incurred over the vesting period.

Note 21 - Earnings per Share

The calculation of basic earnings per share and diluted earnings per share is presented below:

(dollars in thousands,
except per share data)

| | Year Ended December 31, | | |
|--|-------------------------|------------|------------|
| | 2017 | 2016 | 2015 |
| Numerator - Net income available to common shareholders | \$ 23,016 | \$ 36,036 | \$ 16,754 |
| Denominator for basic earnings per share – Weighted average shares outstanding* | 17,150,125 | 16,859,623 | 17,488,325 |
| Effect of dilutive potential common shares | 248,798 | 168,499 | 267,996 |
| Denominator for diluted earnings per share – Adjusted weighted average shares outstanding | 17,398,923 | 17,028,122 | 17,756,321 |
| Basic earnings per share | \$ 1.34 | \$ 2.14 | \$ 0.96 |
| Diluted earnings per share | \$ 1.32 | \$ 2.12 | \$ 0.94 |
| Antidilutive shares excluded from computation of average dilutive earnings per share | 27,159 | — | — |

*Excludes restricted stock

All weighted average shares, actual shares and per share information in the financial statements have been adjusted retroactively for the effect of stock dividends and splits. See Note 1-Q – “Summary of Significant Accounting Policies: Earnings per Common Share” for a discussion on the calculation of earnings per share.

Note 22 – Related Party Transactions

In the ordinary course of business, the Bank granted loans to principal officers, directors and their affiliates. The outstanding balances of loans, including undrawn commitments to lend, to such related parties at December 31, 2017 and 2016 were \$8.1 million and \$11.7 million, respectively.

Related party deposits amounted to \$4.8 million and \$6.0 million at December 31, 2017 and 2016, respectively.

Note 23 - Financial Instruments with Off-Balance Sheet Risk, Contingencies and Concentration of Credit Risk

Off-Balance Sheet Risk

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

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

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

[Table of Contents](#)

Standby letters of credit are conditional commitments issued by the Bank to a customer for a third party. Such standby letters of credits are issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is similar to that involved in extending loan facilities to customers. The collateral varies, but may include accounts receivable, marketable securities, inventory, property, plant and equipment, and residential real estate for those commitments for which collateral is deemed necessary. The Corporation's obligation under standby letters of credit as of December 31, 2017 was \$17.0 million. There were no outstanding bankers' acceptances as of December 31, 2017.

Contingencies

Legal Matters

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

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

Indemnifications

In general, the Corporation does not sell loans with recourse, except to the extent that it arises from standard loan-sale contract provisions. These provisions cover violations of representations and warranties and, under certain circumstances, first payment default by borrowers. These indemnifications may include the repurchase of loans by the Corporation, and are considered customary provisions in the secondary market for conforming mortgage loan sales. As of December 31, 2017, there are no pending make-whole requests. As of December 31, 2017, the Corporation had no loans sold with recourse outstanding.

Concentrations of Credit Risk

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

Note 24 - Dividend Restrictions

The Bank is subject to the Pennsylvania Banking Code of 1965 (the "Code"), as amended, and is restricted in the amount of dividends that can be paid to its sole shareholder, the Corporation. The Code restricts the payment of dividends by the Bank to the amount of its 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. The Bank's total retained net income for the combined two years ended December 31, 2016 and 2017 was \$38.5 million. The Bank did not issue any dividends to the Corporation during the twelve months ended December 31, 2017. Accordingly, the dividend payable by the Bank to the Corporation beginning on January 1, 2018 is limited to net income not yet earned in 2018 plus \$38.5 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 as detailed in Note 25 – "Regulatory Capital Requirements".

Note 25 - Regulatory Capital Requirements

A. General Regulatory Capital Information

Both the Corporation and the Bank are subject to various regulatory capital requirements, administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if taken, could have a direct material effect on the Corporation's and the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies. Beginning in 2015, new regulatory capital reforms, known as Basel III, issued as part of the Dodd-Frank Act began to be phased in. For more information, refer to the "Other Information" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K.

B. S-3 Shelf Registration Statement and Offerings Thereunder

In March 2015, the Corporation filed a shelf registration statement on Form S-3, SEC File No. 333-202805 (the “Shelf Registration Statement”). The Shelf Registration Statement allows the Corporation to raise additional capital through offers and sales of registered securities consisting of common stock, debt securities, warrants to purchase common stock, stock purchase contracts and units or units consisting of any combination of the foregoing securities. Using the prospectus in the Shelf Registration Statement, together with applicable prospectus supplements, the Corporation may sell, from time to time, in one or more offerings, such securities in a dollar amount up to \$200 million, in the aggregate.

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 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 twelve months ended December 31, 2017, the Corporation did not issue any shares through the Plan. No RFWs were approved during the twelve months ended December 31, 2017. No other sales of equity securities were executed under the Shelf Registration Statement during the twelve months ended December 31, 2017.

C. Shares Issued in Mergers and Acquisitions

In connection with the RBPI Merger, the Corporation issued 3,098,754 common shares, valued at \$136.7 million, to former shareholders of RBPI. These shares were registered on an S-4 registration statement filed by the Corporation in April 2017 (SEC File No. 333-216995).

D. Share Repurchases

For the twelve-month periods ended December 31, 2017 and 2016, the Corporation repurchased 0 and 862,500 shares, respectively, of Corporation stock through its announced repurchase program. In addition, it is the Corporation’s practice to retire shares to its treasury account upon the vesting of stock awards to certain officers, in order to cover the statutory income tax withholdings related to such vesting.

E. Regulatory Capital Ratios

As set forth in the following table, quantitative measures have been established to ensure capital adequacy ratios required of both the Corporation and the Bank. As of December 31, 2017 and 2016, the Corporation and the Bank had met all capital adequacy requirements to which they were subject. Federal banking regulators have defined specific capital categories, and categories range from a best of “well capitalized” to a worst of “critically under-capitalized.” Both the Corporation and the Bank were classified as “well capitalized” as of December 31, 2017 and 2016.

[Table of Contents](#)

The Corporation's and the Bank's capital amounts and ratios as of December 31, 2017 and 2016 are presented in the following table:

| | Actual | | Minimum to be Well Capitalized | |
|---|------------|--------|--------------------------------|--------|
| | Amount | Ratio | Amount | Ratio |
| <i>(dollars in thousands)</i> | | | | |
| December 31, 2017 | | | | |
| Total capital to risk weighted assets: | | | | |
| Corporation | \$ 461,414 | 13.85% | \$ 333,068 | 10.00% |
| Bank | \$ 387,067 | 11.65% | \$ 332,388 | 10.00% |
| Tier I capital to risk weighted assets: | | | | |
| Corporation | \$ 344,964 | 10.36% | \$ 266,454 | 8.00% |
| Bank | \$ 369,033 | 11.10% | \$ 265,910 | 8.00% |
| Common equity Tier I risk weighted assets: | | | | |
| Corporation | \$ 326,454 | 9.80% | \$ 216,494 | 6.50% |
| Bank | \$ 369,033 | 11.10% | \$ 216,052 | 6.50% |
| Tier I leverage ratio (Tier I capital to total quarterly average assets): | | | | |
| Corporation | \$ 344,964 | 10.04% | \$ 171,804 | 5.00% |
| Bank | \$ 369,033 | 10.75% | \$ 171,609 | 5.00% |
| December 31, 2016 | | | | |
| Total capital to risk weighted assets: | | | | |
| Corporation | \$ 318,191 | 12.35% | \$ 257,651 | 10.00% |
| Bank | \$ 287,897 | 11.19% | \$ 257,179 | 10.00% |
| Tier I capital to risk weighted assets: | | | | |
| Corporation | \$ 270,845 | 10.51% | \$ 206,121 | 8.00% |
| Bank | \$ 270,083 | 10.50% | \$ 205,743 | 8.00% |
| Common equity Tier I to risk weighted assets: | | | | |
| Corporation | \$ 270,845 | 10.51% | \$ 167,474 | 6.50% |
| Bank | \$ 270,083 | 10.50% | \$ 167,166 | 6.50% |
| Tier I leverage ratio (Tier I capital to total quarterly average assets): | | | | |
| Corporation | \$ 270,845 | 8.73% | \$ 155,035 | 5.00% |
| Bank | \$ 270,083 | 8.73% | \$ 154,761 | 5.00% |

Note 26 - Selected Quarterly Financial Data (Unaudited)

| | 2017 | | | |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| <i>(dollars in thousands, except per share data)</i> | | | | |
| Interest income | \$ 30,326 | \$ 31,237 | \$ 33,198 | \$ 34,798 |
| Interest expense | 2,923 | 3,272 | 3,760 | 4,477 |
| Net interest income | 27,403 | 27,965 | 29,438 | 30,321 |
| Provision for / (release of) loan and lease losses | 291 | (83) | 1,333 | 1,077 |
| Non-interest income | 13,227 | 14,785 | 15,584 | 15,536 |
| Non-interest expense | 26,660 | 28,495 | 28,184 | 31,056 |
| Income before income taxes | 13,679 | 14,338 | 15,505 | 13,724 |
| Income taxes | 4,635 | 4,905 | 4,766 | 19,924 |
| Net income / (loss) | \$ 9,044 | \$ 9,433 | \$ 10,739 | \$ (6,200) |
| Basic earnings (loss) per common share* | \$ 0.53 | \$ 0.56 | \$ 0.63 | \$ (0.35) |
| Diluted earnings (loss) per common share* | \$ 0.53 | \$ 0.55 | \$ 0.62 | \$ (0.35) |
| Dividend declared | \$ 0.21 | \$ 0.21 | \$ 0.22 | \$ 0.22 |

| | 2016 | | | |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| <i>(dollars in thousands, except per share data)</i> | | | | |
| Interest income | \$ 28,269 | \$ 29,286 | \$ 29,514 | \$ 29,922 |
| Interest expense | 2,367 | 2,659 | 2,797 | 2,932 |
| Net interest income | 25,902 | 26,627 | 26,717 | 26,990 |
| Provision for loan and lease losses | 1,410 | 445 | 1,412 | 1,059 |
| Non-interest income | 13,153 | 13,781 | 13,786 | 13,248 |
| Non-interest expense | 24,996 | 26,220 | 25,371 | 25,087 |
| Income before income taxes | 12,649 | 13,743 | 13,720 | 14,092 |
| Income taxes | 4,328 | 4,810 | 4,346 | 4,684 |
| Net income | \$ 8,321 | \$ 8,933 | \$ 9,374 | \$ 9,408 |
| Basic earnings per common share* | \$ 0.49 | \$ 0.53 | \$ 0.56 | \$ 0.56 |
| Diluted earnings per common share* | \$ 0.49 | \$ 0.52 | \$ 0.55 | \$ 0.55 |
| Dividend declared | \$ 0.20 | \$ 0.20 | \$ 0.21 | \$ 0.21 |

*Earnings per share is computed independently for each period shown. As a result, the sum of the quarters may not equal the total earnings per share for the year.

Note 27 - Parent Company-Only Financial Statements

The condensed financial statements of the Corporation (parent company only) are presented below. These statements should be read in conjunction with the Notes to the Consolidated Financial Statements.

A. Condensed Balance Sheets

| <i>(dollars in thousands)</i> | December 31, | |
|--|---------------------|-------------------|
| | 2017 | 2016 |
| Assets: | | |
| Cash | \$ 68,535 | \$ 23,663 |
| Investment securities | 458 | 400 |
| Investments in subsidiaries, as equity in net assets | 580,230 | 384,751 |
| Premises and equipment, net | 2,189 | 2,288 |
| Goodwill | 245 | 245 |
| Other assets | 1,135 | 1,435 |
| Total assets | <u>\$ 652,792</u> | <u>\$ 412,782</u> |
| Liabilities and shareholders' equity: | | |
| Subordinated notes | 98,416 | 29,532 |
| Junior subordinated debentures | 21,416 | — |
| Other liabilities | 4,158 | 2,123 |
| Total liabilities | <u>\$ 123,990</u> | <u>\$ 31,655</u> |
| Common stock, par value \$1, authorized 100,000,000 shares issued 24,360,049 shares and 21,110,968 shares as of December 31, 2017 and 2016, respectively, and outstanding 20,161,395 shares and 16,939,715 shares as of December 31, 2017 and 2016, respectively | \$ 24,360 | \$ 21,111 |
| Paid-in capital in excess of par value | 371,486 | 232,806 |
| Less common stock in treasury, at cost – 4,198,654 shares and 4,171,253 shares as of December 31, 2017 and 2016, respectively | (68,179) | (66,950) |
| Accumulated other comprehensive loss, net of deferred income taxes benefit | (4,414) | (2,409) |
| Retained earnings | 205,549 | 196,569 |
| Total shareholders' equity | <u>\$ 528,802</u> | <u>\$ 381,127</u> |
| Total liabilities and shareholders' equity | <u>\$ 652,792</u> | <u>\$ 412,782</u> |

B. Condensed Statements of Income

| <i>(dollars in thousands)</i> | Twelve Months Ended December 31, | | |
|--|---|------------------|------------------|
| | 2017 | 2016 | 2015 |
| Dividends from subsidiaries | \$ 950 | \$ 17,718 | \$ 34,234 |
| Net interest and other income | 2,761 | 2,714 | 2,128 |
| Total operating income | 3,711 | 20,432 | 36,362 |
| Expenses | 2,782 | 2,443 | 2,140 |
| Income before equity in undistributed income of subsidiaries | 929 | 17,989 | 34,222 |
| Equity in undistributed income of subsidiaries | 21,053 | 17,600 | (17,427) |
| Income before income taxes | 21,982 | 35,589 | 16,795 |
| Income tax (benefit) expense | (1,034) | (447) | 41 |
| Net income | <u>\$ 23,016</u> | <u>\$ 36,036</u> | <u>\$ 16,754</u> |

C. Condensed Statements of Cash Flows

| <i>(dollars in thousands)</i> | Twelve Months Ended December 31, | | |
|---|----------------------------------|------------------|------------------|
| | 2017 | 2016 | 2015 |
| Operating activities: | | | |
| Net Income | \$ 23,016 | \$ 36,036 | \$ 16,754 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in undistributed income of subsidiaries | (21,053) | (17,600) | 17,427 |
| Depreciation and amortization | 154 | 151 | 121 |
| Stock-based compensation cost | 2,068 | 1,713 | 1,441 |
| Other, net | 1,241 | 1,000 | 508 |
| Net cash provided by operating activities | 5,426 | 21,300 | 36,251 |
| Investing Activities: | | | |
| Investment in subsidiaries | (15,300) | (15,000) | — |
| Net change in trading securities | (58) | — | 16 |
| Acquisitions, net of cash acquired | 531 | — | 128 |
| Net cash (used in) provided by investing activities | (14,827) | (15,000) | 144 |
| Financing activities: | | | |
| Dividends paid | (14,799) | (13,961) | (13,837) |
| Proceeds from issuance of subordinated notes | 68,829 | — | 29,456 |
| Net purchase of treasury stock for deferred compensation plans | (115) | (133) | (128) |
| Net purchase of treasury stock through publicly announced plans | — | (7,971) | (26,418) |
| Proceeds from issuance of common stock | — | — | 20 |
| Excess tax benefit from stock-based compensation | — | — | 783 |
| Cash payments to taxing authorities on employees' behalf from shares withheld from stock-based compensation | (1,140) | (745) | — |
| Proceeds from exercise of stock options | 1,498 | 2,181 | 6,452 |
| Net cash provided by (used in) financing activities | 54,273 | (20,629) | (3,672) |
| Change in cash and cash equivalents | 44,872 | (14,329) | 32,723 |
| Cash and cash equivalents at beginning of period | 23,663 | 37,992 | 5,269 |
| Cash and cash equivalents at end of period | \$ 68,535 | \$ 23,663 | \$ 37,992 |

Note 28 - Segment Information

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

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

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

In addition, with the October 1, 2014 acquisition of PCPB, followed by the April 1, 2015 acquisition of RJM and the May 2017 acquisition of Hirshorn Boothby, both of which were merged into PCPB (which was recently renamed BMT Insurance Advisors), the Wealth Management Division assumed responsibility for all insurance services of the Corporation.

[Table of Contents](#)

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

The following table details the Corporation's segments:

| | As of or for the Twelve Months Ended December 31, | | | | | | | | |
|--|---|-------------------|--------------|------------|-------------------|--------------|------------|-------------------|--------------|
| | 2017 | | | 2016 | | | 2015 | | |
| | Banking | Wealth Management | Consolidated | Banking | Wealth Management | Consolidated | Banking | Wealth Management | Consolidated |
| <i>(dollars in thousands)</i> | | | | | | | | | |
| Net interest income | \$ 115,124 | \$ 3 | \$ 115,127 | \$ 106,233 | \$ 3 | \$ 106,236 | \$ 100,124 | \$ 3 | \$ 100,127 |
| Less: loan loss provision | 2,618 | — | 2,618 | 4,326 | — | 4,326 | 4,396 | — | 4,396 |
| Net interest income after loan loss provision | 112,506 | 3 | 112,509 | 101,907 | 3 | 101,910 | 95,728 | 3 | 95,731 |
| Other income: | | | | | | | | | |
| Fees for wealth management services | — | 38,735 | 38,735 | — | 36,690 | 36,690 | — | 36,894 | 36,894 |
| Service charges on deposit accounts | 2,608 | — | 2,608 | 2,791 | — | 2,791 | 2,927 | — | 2,927 |
| Loan servicing and other fees | 2,106 | — | 2,106 | 1,939 | — | 1,939 | 2,087 | — | 2,087 |
| Net gain on sale of loans | 2,441 | — | 2,441 | 3,048 | — | 3,048 | 2,847 | — | 2,847 |
| Net gain (loss) on sale of available for sale securities | 101 | — | 101 | (77) | — | (77) | 931 | — | 931 |
| Net (loss) gain on sale of other real estate owned | (104) | — | (104) | (76) | — | (76) | 123 | — | 123 |
| Insurance commissions | — | 4,589 | 4,589 | — | 3,722 | 3,722 | — | 3,745 | 3,745 |
| Capital markets revenue | 2,396 | — | 2,396 | — | — | — | — | — | — |
| Other operating income | 6,063 | 197 | 6,260 | 5,773 | 158 | 5,931 | 6,082 | 149 | 6,231 |
| Total other income | 15,611 | 43,521 | 59,132 | 13,398 | 40,570 | 53,968 | 14,997 | 40,788 | 55,785 |
| Other expenses: | | | | | | | | | |
| Salaries & wages | 36,559 | 16,692 | 53,251 | 32,321 | 15,090 | 47,411 | 30,391 | 14,184 | 44,575 |
| Employee benefits | 6,632 | 3,820 | 10,452 | 6,257 | 3,291 | 9,548 | 7,298 | 2,907 | 10,205 |
| Loss on pension plan settlement | — | — | — | — | — | — | 17,377 | — | 17,377 |
| Occupancy and bank premises | 8,208 | 1,698 | 9,906 | 8,005 | 1,606 | 9,611 | 8,662 | 1,643 | 10,305 |
| Amortization of intangible assets | 783 | 1,951 | 2,734 | 872 | 2,626 | 3,498 | 1,172 | 2,655 | 3,827 |
| Professional fees | 2,998 | 270 | 3,268 | 3,516 | 143 | 3,659 | 3,227 | 126 | 3,353 |
| Other operating expenses | 30,323 | 4,461 | 34,784 | 24,112 | 3,835 | 27,947 | 31,975 | 3,973 | 35,948 |
| Total other expenses | 85,503 | 28,892 | 114,395 | 75,083 | 26,591 | 101,674 | 100,102 | 25,488 | 125,590 |
| Segment profit | 42,614 | 14,632 | 57,246 | 40,222 | 13,982 | 54,204 | 10,623 | 15,303 | 25,926 |
| Intersegment (revenues) expenses* | (448) | 448 | — | (396) | 396 | — | (422) | 422 | — |
| Pre-tax segment profit after eliminations | \$ 42,166 | \$ 15,080 | \$ 57,246 | \$ 39,826 | \$ 14,378 | \$ 54,204 | \$ 10,201 | \$ 15,725 | \$ 25,926 |
| % of segment pre-tax profit after eliminations | 73.7% | 26.3% | 100.0% | 73.5% | 26.5% | 100.0% | 39.3% | 60.7% | 100.0% |
| Segment assets <i>(dollars in millions)</i> | \$ 4,398.5 | \$ 51.2 | \$ 4,449.7 | \$ 3,377.1 | \$ 44.4 | \$ 3,421.5 | \$ 2,983.2 | \$ 47.8 | \$ 3,031.0 |

* Intersegment revenues consist of rental payments, deposit interest and management fees.

Other segment information:

Wealth Management Segment Information

| <i>(dollars in millions)</i> | December 31, 2017 | December 31, 2017 |
|--|-------------------|-------------------|
| Assets under management, administration, supervision and brokerage | \$ 12,968.7 | \$ 11,328.5 |

ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

• **Evaluation of Disclosure Controls and Procedures**

The Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer, Francis J. Leto, and Chief Financial Officer, Michael W. Harrington, of the effectiveness of the Corporation's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2017 pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures as of December 31, 2017 are effective.

• **Changes in Internal Control over Financial Reporting**

There were no changes in the Corporation's internal control over financial reporting during the fourth quarter of 2017 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

• **Design and Evaluation of Internal Control Over Financial Reporting**

Pursuant to Section 404 of Sarbanes-Oxley, the following is a report of management's assessment of the design and effectiveness of our internal controls for the fiscal year ended December 31, 2017, and a report from our independent registered public accounting firm attesting to the effectiveness of our internal controls:

Management's Report on Internal Control Over Financial Reporting

The Corporation is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this Annual Report on Form 10-K. The consolidated financial statements and notes included in this Annual Report on Form 10-K have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on Management's best estimates and judgments.

The Corporation's Management is responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles; provide a reasonable assurance that receipts and expenditures of the Corporation are only being made in accordance with authorizations of Management and directors of the Corporation; and provide a reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Corporation's assets that could have a material effect on the financial statements. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by Management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are noted.

Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

The Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management, including the Corporation's Chief Executive Officer and Chief Financial Officer, assessed the Corporation's system of internal control over financial reporting as of December 31, 2017, in relation to the criteria for effective control over financial reporting as described in "Internal Control – Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on this assessment, Management concludes that, as of December 31, 2017, the Corporation's system of internal control over financial reporting is effective.

KPMG, LLP, which is the independent registered public accounting firm that audited the financial statements in this Annual Report on Form 10-K, has issued an attestation report on the Corporation's internal control over financial reporting, which can be found under the heading "Report of Independent Registered Public Accounting Firm" at page 54, and is incorporated by reference herein.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required for Item 10 is incorporated by reference to the sections titled "Our Board of Directors," "Information About our Directors," "Information About our Executive Officers," "Corporate Governance," "Audit Committee Report" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2018 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required for Item 11 is incorporated by reference to section titled "Director Compensation," "Compensation Discussion and Analysis," "Executive Compensation," "Compensation Committee Report" and "Compensation Committee Interlocks and Insider Participation" in the 2018 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required for Item 12 is incorporated by reference to the section titled "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the 2018 Proxy Statement.

[Table of Contents](#)

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required for Item 13 is incorporated by reference to sections titled “Transactions with Related Persons” and “Corporate Governance – Director Independence” in the 2018 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required for Item 14 is incorporated by reference to the section “Independent Registered Public Accounting Firm” in the 2018 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Item 15(a) (1 & 2) Financial Statements and Schedules

The financial statements listed in the accompanying index to financial statements are filed as part of this Annual Report.

| | <u>Page</u> |
|---|-------------|
| Report of Independent Registered Public Accounting Firm | 54 |
| Consolidated Balance Sheets | 55 |
| Consolidated Statements of Income | 56 |
| Consolidated Statements of Comprehensive Income | 57 |
| Consolidated Statements of Cash Flows | 58 |
| Consolidated Statement of Changes in Shareholders' Equity | 59 |
| Notes to Consolidated Financial Statements | 60 |

Item 15(a) (3) and (b) — Exhibits

| <u>Exhibit No.</u> | <u>Description and References</u> |
|--------------------|---|
| 2.1 | Stock Purchase Agreement, dated as of February 18, 2011, by and between Bryn Mawr Bank Corporation and Hershey Trust Company, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with SEC on February 18, 2011 |
| 2.2 | Amendment to Stock Purchase Agreement, dated as of May 27, 2011, by and between Hershey Trust Company and Bryn Mawr Bank Corporation, incorporated by reference to Exhibit 2.2 of the Corporation's 8-K filed with the SEC on May 27, 2011 |
| 2.3 | Assignment and Assumption Agreement, dated as of May 27, 2011, by and between Hershey Trust Company and PWMG Bank Holding Company Trust, incorporated by reference to Exhibit 2.3 of the Corporation's 8-K filed with the SEC on May 27, 2011 |
| 2.4 | Stock Purchase Agreement, dated as of February 3, 2012, by and among Bryn Mawr Bank Corporation, Davidson Trust Company, Boston Private (PA) Corporation, Bruce K. Bauder, Ernest E. Cecilia, Joseph J. Costigan, William S. Covert, James M. Davidson, Steven R. Klammer, N. Ray Sague, Malcolm C. Wilson, Boston Private Financial Holdings, Inc., and Alvin A. Clay III, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on February 7, 2012 |
| 2.5 | Purchase and Assumption Agreement, dated as of April 27, 2012, by and between The Bryn Mawr Trust Company and First Bank of Delaware, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on May 2, 2012 |
| 2.6 | Amendment to Stock Purchase Agreement, dated as of May 15, 2012, by and among Bryn Mawr Bank Corporation, Davidson Trust Company, Boston Private (PA) Corporation, Bruce K. Bauder, Ernest E. Cecilia, Joseph J. Costigan, William S. Covert, James M. Davidson, Steven R. Klammer, N. Ray Sague, Malcolm C. Wilson, Boston Private Financial Holdings, Inc., and Alvin A. Clay III, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on May 18, 2012 |
| 2.7 | Amendment to Purchase and Assumption Agreement, dated as of October 12, 2012, by and between The Bryn Mawr Trust Company and First Bank of Delaware, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on October 18, 2012 |

Table of Contents

| <u>Exhibit No.</u> | <u>Description and References</u> |
|--------------------|---|
| 2.8 | <u>Amendment to Purchase and Assumption Agreement, dated as of November 14, 2012, by and between The Bryn Mawr Trust Company and First Bank of Delaware, incorporated by reference to Exhibit 2.1 of the Corporation's 8-K filed with the SEC on November 19, 2012</u> |
| 2.9 | <u>Agreement and Plan of Merger, dated as of May 5, 2014, by and between Bryn Mawr Bank Corporation and Continental Bank Holdings, Inc., incorporated by reference to Exhibit 2.1 to the Corporation's Form 8-K filed with the SEC on May 5, 2014</u> |
| 2.10 | <u>Amendment to Agreement and Plan of Merger, dated as of October 23, 2014, between Bryn Mawr Bank Corporation and Continental Bank Holdings, Inc., incorporated by reference to Exhibit 2.1 to the Corporation's Form 8-K filed with the SEC on October 23, 2014</u> |
| 2.11 | <u>Stock Purchase Agreement, dated as of August 21, 2014, by and among The Bryn Mawr Trust Company, Donald W. Parker, Edward F. Lee, and Powers Craft Parker and Beard, Inc., incorporated by reference to Exhibit 2.1 to the Corporation's Form 10-Q filed with the SEC on November 7, 2014</u> |
| 2.12 | <u>Amendment to Stock Purchase Agreement, dated as of October 1, 2014, by and among The Bryn Mawr Trust Company, Donald W. Parker, Edward F. Lee, and Powers Craft Parker and Beard, Inc., incorporated by reference to Exhibit 2.1 to the Corporation's Form 8-K filed with the SEC on October 3, 2014</u> |
| 2.13 | <u>Agreement and Plan of Merger, dated as of January 30, 2017, by and between Bryn Mawr Bank Corporation and Royal Bancshares of Pennsylvania, Inc., incorporated by reference to Exhibit 2.1 to the Corporation's Form 8-K filed with the SEC on January 31, 2017</u> |
| 2.14 | <u>Amendment No. 1 to Agreement and Plan of Merger, dated December 14, 2017, by and between Bryn Mawr Bank Corporation and Royal Bancshares of Pennsylvania, Inc., incorporated by reference to Exhibit 2.1 to the Corporation's Form 8-K filed with the SEC on December 18, 2017</u> |
| 3.1 | <u>Amended and Restated By-Laws, effective November 20, 2007, incorporated by reference to Exhibit 3.2 of the Corporation's Form 8-K filed with the SEC on November 21, 2007</u> |
| 3.2 | <u>Amended and Restated Articles of Incorporation, effective November 21, 2007, incorporated by reference to Exhibit 3.1 of the Corporation's Form 8-K filed with the SEC on November 21, 2007</u> |
| 4.1 | <u>Amended and Restated By-Laws, effective November 20, 2007, incorporated by reference to Exhibit 3.2 of the Corporation's Form 8-K filed with the SEC on November 21, 2007</u> |
| 4.2 | <u>Amended and Restated Articles of Incorporation, effective November 21, 2007, incorporated by reference to Exhibit 3.1 of the Corporation's Form 8-K filed with the SEC on November 21, 2007</u> |
| 4.3 | <u>Indenture, dated August 6, 2015, by and between Bryn Mawr Bank Corporation and U.S. Bank National Association, as trustee, incorporated by reference to the Corporation's Form 8-K filed with the SEC on August 7, 2015</u> |
| 4.4 | <u>Forms of 4.75% Subordinated Note due 2025 (included as Exhibit A-1 and Exhibit A-2 to the Indenture filed as Exhibit 4.1), incorporated by reference to the Corporation's Form 8-K filed with the SEC on August 7, 2015</u> |
| 4.5 | <u>Indenture, dated as of December 13, 2017 between Bryn Mawr Bank Corporation and U.S. Bank National Association, as trustee, incorporated by reference to the Corporation's Form 8-K filed with the SEC on December 13, 2017</u> |
| 4.6 | <u>First Supplemental Indenture, dated as of December 13, 2017 between Bryn Mawr Bank Corporation and U.S. Bank National Association as trustee, incorporated by reference to the Corporation's Form 8-K filed with the SEC on December 13, 2017</u> |
| 4.7 | <u>Form of 4.25% Fixed-to-Floating Rate Subordinated Note due December 15, 2027 (included as Exhibit A to the Indenture filed as Exhibit 4.2), incorporated by reference to the Corporation's Form 8-K filed with the SEC on December 13, 2017</u> |
| 4.8 | <u>Junior Subordinated Debt Security Due 2034 issued by Royal Bancshares of Pennsylvania, Inc. to JPMorgan Chase Bank, as Institutional Trustee, dated October 27, 2004, incorporated by reference to Exhibit 4.1 to RBPI's Current Report on Form 8-K (included as Exhibit A to Exhibit 10.1) filed with the SEC on November 1, 2004</u> |
| 4.9 | <u>Junior Subordinated Debt Security Due 2034 issued by Royal Bancshares of Pennsylvania, Inc. to JPMorgan Chase Bank, as Institutional Trustee, dated October 27, 2004, incorporated by reference to Exhibit 4.2 to RBPI's Current Report on Form 8-K (included as Exhibit A to Exhibit 10.2) filed with the SEC on November 1, 2004</u> |
| 4.10 | <u>Indenture by and between Royal Bancshares of Pennsylvania, Inc. and JPMorgan Chase Bank, as Trustee, dated October 27, 2004, incorporated by reference to Exhibit 10.1 to RBPI's Current Report on Form 8-K filed with the Commission on November 1, 2004</u> |
| 4.11 | <u>Indenture by and between Royal Bancshares of Pennsylvania, Inc. and JPMorgan Chase Bank, as Trustee, dated October 27, 2004, incorporated by reference to Exhibit 10.2 to RBPI's Current Report on Form 8-K filed with the Commission on November 1, 2004</u> |
| 4.12 | <u>Guarantee Agreement by and between Royal Bancshares of Pennsylvania, Inc. and JPMorgan Chase Bank, as Guarantee Trustee, dated October 27, 2004, incorporated by reference to Exhibit 10.3 to RBPI's Current Report on Form 8-K filed with the Commission on November 1, 2004</u> |

Table of Contents

| <u>Exhibit No.</u> | <u>Description and References</u> |
|--------------------|--|
| 4.13 | <u>Guarantee Agreement by and between Royal Bancshares of Pennsylvania, Inc. and JPMorgan Chase Bank, as Guarantee Trustee, October 27, 2004, incorporated by reference to Exhibit 10.4 to RBPI's Current Report on Form 8-K filed with the Commission on November 1, 2004</u> |
| 4.14 | <u>Warrant to Purchase Class A Common Stock, issued February 20, 2009, by Royal Bancshares of Pennsylvania, Inc. to the United States Department of the Treasury, incorporated by reference to Exhibit 4.1 to RBPI's Current Report on Form 8-K filed with the Commission on February 26, 2009</u> |
| 10.1* | <u>Amended and Restated Supplemental Employee Retirement Plan of the Bryn Mawr Bank Corporation, effective January 1, 1999, incorporated by reference to Exhibit 10.1 of the Corporation's Form 10-K filed with the SEC on March 13, 2008</u> |
| 10.2** | <u>Form of Restricted Stock Agreement for Employees (Service/Performance Based) Subject to the 2010 Long Term Incentive Plan, incorporated by reference to Exhibit 10.3 of the Corporation's Form 10-K filed with the SEC on March 16, 2011</u> |
| 10.3* | <u>Amended and Restated Deferred Bonus Plan for Executives of Bryn Mawr Bank Corporation, effective January 1, 2008 incorporated by reference to Exhibit 10.4 of the Corporation's Form 10-K filed with the SEC on March 16, 2009</u> |
| 10.4* | <u>Amended and Restated Deferred Payment Plan for Directors of Bryn Mawr Bank Corporation, effective January 1, 2008 incorporated by reference to Exhibit 10.5 of the Corporation's Form 10-K filed with the SEC on March 16, 2009</u> |
| 10.5* | <u>Amended and Restated Deferred Payment Plan for Directors of Bryn Mawr Trust Company, effective January 1, 2008 incorporated by reference to Exhibit 10.6 of the Corporation's Form 10-K filed with the SEC on March 16, 2009</u> |
| 10.6* | <u>Employment Letter Agreement, dated as of April 25, 2014, between the Corporation and Francis J. Leto, incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K filed with the SEC on April 25, 2014</u> |
| 10.7* | <u>Amendment to 2012 Restricted Stock Agreement, dated August 20, 2014, between Bryn Mawr Bank Corporation and Fredrick C. Peters, II, incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K filed with the SEC on August 21, 2014</u> |
| 10.8* | <u>Amendment to 2013 Restricted Stock Unit Agreement, dated August 20, 2014, between Bryn Mawr Bank Corporation and Fredrick C. Peters, II, incorporated by reference to Exhibit 10.2 to the Corporation's Form 8-K filed with the SEC on August 21, 2014</u> |
| 10.9* | <u>Standard Form of Executive Change-of-Control Agreement, incorporated by reference to Exhibit 10.2 of the Corporation's Form 8-K filed with the SEC on December 18, 2017</u> |
| 10.10* | <u>Executive Change-of-Control Amended and Restated Severance Agreement, dated May 21, 2004, between the Bryn Mawr Trust Company and Alison E. Gers, incorporated by reference to Exhibit 10.M of the Corporation's Form 10-K filed with the SEC on March 15, 2007</u> |
| 10.11* | <u>Executive Change-of-Control Amended and Restated Severance Agreement, dated May 21, 2004, between the Bryn Mawr Trust Company and Joseph G. Keefer, incorporated by reference to Exhibit 10.N of the Corporation's Form 10-K filed with the SEC on March 15, 2007</u> |
| 10.12* | <u>Form of Restricted Stock Unit Agreement for Executives (Time/Performance Based), filed herewith</u> |
| 10.13** | <u>Form of Key Employee Non-Qualified Stock Option Agreement, incorporated by reference to Exhibit 10.3 of the Corporation's Form 10-Q filed with the SEC on May 10, 2005</u> |
| 10.14** | <u>Form of Non-Qualified Stock Option Agreement for Non-Employee Directors, incorporated by reference to Exhibit 10.2 of the Corporation's Form 10-Q filed with the SEC on May 10, 2005</u> |
| 10.15** | <u>Form of Restricted Stock Unit Agreement for Employees (Service/Performance Based) – Multi-Year Vesting, incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K filed with the SEC on September 17, 2014</u> |
| 10.16** | <u>2007 Long Term Incentive Plan, effective April 25, 2007, incorporated by reference to Exhibit 10.1 of the Corporation's Form 10-Q filed with the SEC May 10, 2007</u> |
| 10.17** | <u>Bryn Mawr Bank Corporation Supplemental Employee Retirement Plan for Select Executives, executed December 8, 2008, incorporated by reference to Exhibit 10.20 of the Corporation's Form 10-K filed with the SEC on March 16, 2009</u> |
| 10.18 | <u>Form of Director Letter Agreement, incorporated by reference to Exhibit 10.2 to the Corporation's Form 10-Q filed with the SEC on August 8, 2014</u> |
| 10.19* | <u>Executive Change-of-Control Amended and Restated Severance Agreement, dated November 2, 2009, between the Bryn Mawr Trust Company and Francis J. Leto, incorporated by reference to Exhibit 10.1 of the Corporation's 8-K filed with the SEC on November 6, 2009</u> |
| 10.20** | <u>Form of Restricted Stock Unit Agreement for Employees (Time-Based Cliff Vesting), incorporated by reference to Exhibit 10.2 to the Corporation's Form 10-O filed with the SEC on August 7, 2015</u> |
| 10.21** | <u>Bryn Mawr Bank Corporation 2010 Long-Term Incentive Plan, effective April 28, 2010, incorporated by reference to Exhibit 10.24 of the Corporation's Form 10-O filed with the SEC on May 10, 2010</u> |
| 10.22** | <u>Amended and Restated Bryn Mawr Bank Corporation 2010 Long-Term Incentive Plan, effective April 30, 2015, incorporated by reference to Appendix A of the Corporation's Proxy Statement on Definitive Schedule 14A filed with the SEC on March 20, 2015</u> |

Table of Contents

| Exhibit No. | Description and References |
|--------------------|---|
| 10.23** | <u>First Keystone Financial, Inc. Amended and Restated 1998 Stock Option Plan, as assumed by Bryn Mawr Bank Corporation, incorporated by reference to Exhibit 10.1 of the Corporation's Post-Effective Amendment No.1 to Form S-4 on Form S-3, filed with the SEC on July 9, 2010</u> |
| 10.24 | <u>Continental Bank Holdings, Inc. Amended and Restated 2005 Stock Incentive Plan, incorporated by reference to Exhibit 4.3 of the Corporation's Form S-8 filed with the SEC on January 22, 2015</u> |
| 10.25** | <u>Restricted Stock Agreement for Employees (Service/Performance Based) Subject to the 2010 Long Term Incentive Plan, dated as of January 10, 2011, for Francis J. Leto, incorporated by reference to Exhibit 10.30 of the Corporation's Form 10-K filed with the SEC on March 16, 2011</u> |
| 10.26 | <u>Amendment No. 2 to Stock Purchase Agreement by and between PWMG Bank Holding Company Trust and Bryn Mawr Bank Corporation dated September 29, 2011, filed with the SEC on Form 8-K on October 4, 2011</u> |
| 10.27** | <u>Form of Restricted Stock Agreement for Employees (Service/Performance Based) Subject to the 2010 Long Term Incentive Plan, incorporated by reference to Exhibit 10.32 of the Corporation's Form 10-Q filed with the SEC on November 9, 2011</u> |
| 10.28** | <u>Form of Restricted Stock Agreement for Directors (Service/Performance Based) Subject to the 2010 Long Term Incentive Plan, incorporated by reference to Exhibit 10.33 of the Corporation's Form 10-Q filed with the SEC on November 9, 2011</u> |
| 10.29* | <u>Amendment No. 1 to Amended and Restated Deferred Bonus Plan for Executives of Bryn Mawr Bank Corporation, effective as of January 1, 2013, incorporated by reference to Exhibit 10.29 of the Corporation's Form 10-K filed with the SEC on March 15, 2013</u> |
| 10.30* | <u>Amendment No. 2 to Amended and Restated Deferred Bonus Plan for Executives of Bryn Mawr Bank Corporation, effective as of January 1, 2013, incorporated by reference to Exhibit 10.30 of the Corporation's Form 10-K filed with the SEC on March 15, 2013</u> |
| 10.31* | <u>Form of Letter Agreement entered into with certain executive officers of the Corporation in connection with the curtailment of benefits under the Bryn Mawr Bank Corporation Supplemental Employee Retirement Plan for Select Executives, executed December 8, 2008 (SERP II), incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on April 4, 2013</u> |
| 10.32* | <u>Bryn Mawr Bank Corporation Executive Deferred Compensation Plan, effective January 1, 2013, incorporated by reference to Exhibit 10.32 of the Corporation's Form 10-K filed with the SEC on March 14, 2014</u> |
| 10.33* | <u>Retention Bonus Agreement, dated as of June 10, 2013, by and between The Bryn Mawr Trust Company and Francis J. Leto, incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on June 14, 2013</u> |
| 10.34* | <u>Form of Restricted Stock Unit Agreement for Directors (Time/Performance Based), filed herewith</u> |
| 10.35** | <u>Form of Restricted Stock Unit Agreement for Employees (Service/Performance Based), incorporated by reference to Exhibit 10.4 to the Corporation's Form 10-Q filed with the SEC on November 7, 2014</u> |
| 10.36** | <u>Form of Restricted Stock Unit Agreement for Directors (Service/Performance Based), incorporated by reference to Exhibit 10.5 to the Corporation's Form 10-Q filed with the SEC on November 7, 2014</u> |
| 10.37** | <u>Form of Restricted Stock Unit Agreement – Inducement Grant, incorporated by reference to Exhibit 10.6 to the Corporation's Form 10-Q filed with the SEC on November 7, 2014</u> |
| 10.38 | <u>Second Amended and Restated Dividend Reinvestment and Stock Purchase Plan, effective April 30, 2015, incorporated by reference to the Corporation's prospectus supplement filed with the SEC on May 1, 2015 pursuant to Rule 424 (b) under the Securities Act of 1933, as amended</u> |
| 10.39* | <u>Employment Letter Agreement, dated December 15, 2017, by and between The Bryn Mawr Trust Company and F. Kevin Tylus, incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on December 18, 2017</u> |

[Table of Contents](#)

| Exhibit No. | Description and References |
|--------------------|---|
| 10.40 | Form of Subordinated Note Purchase Agreement, dated August 6, 2015, by and among Bryn Mawr Bank Corporation and the Purchasers identified therein, incorporated by reference to the Corporation's Form 8-K filed with the SEC on August 7, 2015 |
| 10.41 | Form of Registration Rights Agreement, dated August 6, 2015, by and among Bryn Mawr Bank Corporation and Purchasers identified therein, incorporated by reference to the Corporation's Form 8-K filed with the SEC on August 7, 2015 |
| 10.42* | Employment Letter Agreement, dated September 8, 2015, by and among Bryn Mawr Bank Corporation, The Bryn Mawr Trust Company and Michael W. Harrington, incorporated by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on September 9, 2015 |
| 10.43* | Executive Change-of-Control Severance Agreement, dated as of September 8, 2015, by and between The Bryn Mawr Trust Company and Michael W. Harrington, incorporated by reference to Exhibit 10.2 to the Corporation's Form 8-K filed with the SEC on September 9, 2015 |
| 10.44* | Employment Agreement, dated as of April 1, 2015, between The Bryn Mawr Trust Company and Lori Goldman, incorporated by reference to Exhibit 10.1 of the Corporation's Form 10-Q filed with the SEC on November 3, 2017 |
| 10.45* | Employment Letter Agreement, dated November 20, 2017, by and between Bryn Mawr Bank Corporation, The Bryn Mawr Trust Company and Jennifer Dempsey Fox, filed herewith |
| 10.46* | Form of Restricted Stock Unit Agreement for New Employee, filed herewith |
| 21.1 | Ratio of Earnings to Fixed Charges, filed herewith |
| 21.1 | List of Subsidiaries, filed herewith |
| 23.1 | Consent of KPMG LLP, filed herewith |
| 31.1 | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith |
| 31.2 | Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith |
| 99.1 | Corporation's Proxy Statement for 2017 Annual Meeting to be held on April 19, 2018, expected to be filed with the SEC on or about March 9, 2018 |
| 101.INS XBRL | Instance Document, filed herewith |
| 101.SCH XBRL | Taxonomy Extension Schema Document, filed herewith |
| 101.CAL XBRL | Taxonomy Extension Calculation Linkbase Document, filed herewith |
| 101.DEF XBRL | Taxonomy Extension Definition Linkbase Document, filed herewith |
| 101.LAB XBRL | Taxonomy Extension Label Linkbase Document, filed herewith |
| 101.PRE XBRL | Taxonomy Extension Presentation Linkbase Document, filed herewith |

* Management contract or compensatory plan arrangement.

** Shareholder approved compensatory plan pursuant to which the Registrant's Common Stock may be issued to employees of the Corporation.

Item 15(c) — Not Applicable

Item 16 — None.

SIGNATURES

Pursuant to the requirements of section 13 or 15d of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

Bryn Mawr Bank Corporation

By /s/ Michael W. Harrington
Michael W. Harrington
Chief Financial Officer
(Principal Financial Officer)

Date: March 1, 2018

[Table of Contents](#)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Corporation and in the capacities and on the date indicated.

| NAME | TITLE | DATE |
|--|---|---------------|
| <u>/s/ Britton H. Murdoch</u> Britton H. Murdoch | Chairman and Director | March 1, 2018 |
| <u>/s/ Francis J. Leto</u> Francis J. Leto | President and Chief Executive Officer (Principal Executive Officer) and Director | March 1, 2018 |
| <u>/s/ Michael W. Harrington</u> Michael W. Harrington | Chief Financial Officer (Principal Financial Officer) | March 1, 2018 |
| <u>/s/ Michael T. LaPlante</u> Michael T. LaPlante | Chief Accounting Officer (Principal Accounting Officer) | March 1, 2018 |
| <u>/s/ Diego F. Calderin</u> Diego F. Calderin | Director | March 1, 2018 |
| <u>/s/ Michael J. Clement</u> Michael J. Clement | Director | March 1, 2018 |
| <u>/s/ Andrea F. Gilbert</u> Andrea F. Gilbert | Director | March 1, 2018 |
| <u>/s/ Wendell F. Holland</u> Wendell F. Holland | Director | March 1, 2018 |
| <u>/s/ Scott M. Jenkins</u> Scott M. Jenkins | Director | March 1, 2018 |
| <u>/s/ Jerry L. Johnson</u> Jerry L. Johnson | Director | March 1, 2018 |
| <u>/s/ A. John May, III</u> A. John May, III | Director | March 1, 2018 |
| <u>/s/ Lynn B. McKee</u> Lynn B. McKee | Director | March 1, 2018 |
| <u>/s/ F. Kevin Tylus</u> F. Kevin Tylus | Director | March 1, 2018 |

129

[\(Back To Top\)](#)

Section 2: EX-10.12 (EXHIBIT 10.12)

Exhibit 10.12

**BRYN MAWR BANK CORPORATION
RESTRICTED STOCK UNIT AGREEMENT FOR EXECUTIVES
(SERVICE/PERFORMANCE-BASED)
SUBJECT TO THE AMENDED AND RESTATED 2010 LONG TERM INCENTIVE PLAN**

Grantee: []

Date of Grant: []

Total Number of RSUs: []

Number of time-based RSUs: [] ("Time-Based RSUs")

Target number of performance-based RSUs: [] ("Performance-Based RSUs")

Service Period: [] ("Service Period")

Vesting Dates for Time-Based RSU's: []

Performance Goal: Certain conditions and goals as determined according to Exhibit A hereto

RESTRICTED STOCK UNIT AGREEMENT ("Agreement"), dated as of the Date of Grant set forth above by and between **BRYN MAWR BANK CORPORATION** (the "Corporation") and the Grantee named above (the "Grantee").

1. **The Plan.** This Agreement is subject to the terms and conditions of the [Amended and Restated Bryn Mawr Bank Corporation 2010 Long Term Incentive Plan (the "Plan") as approved by the Board of Directors of the Corporation on February 27, 2015 and by the Corporation's shareholders on April 30, 2015]. Except as otherwise specified herein, all capitalized terms used in this Agreement shall have the meanings given to them in the Plan.

2. **Grant of Restricted Stock Units.**

a. Subject to the terms and conditions of the Plan and this Agreement, and the Grantee's acceptance of same by execution of this Agreement, the Corporation's Compensation Committee ("Compensation Committee") hereby grants to the Grantee the number of Restricted Stock Units set forth under "Total Number of RSUs" above (the "RSUs").

b. Upon vesting of the RSUs and satisfaction of all of the other terms and conditions in this Agreement, the Corporation will issue stock representing the shares underlying the vested RSUs (regardless of whether such RSUs are Time-Based RSUs or Performance-Based RSUs) as soon as practicable following the Time Vesting Date (as defined in subsection 3(a) below), in the case of the vested Time-Based RSUs, and the Performance Vesting Date (as defined in subsection 3(b) below), in the case of the Performance-Based RSUs.

3. **Terms and Conditions.** The Grant is subject to the following terms and conditions:

a. Time-Based Requirements. The Time-Based RSUs will vest in three installments at the Time Vesting Dates (as defined below), provided that Grantee has remained continually employed by the Corporation or any of its direct or indirect subsidiaries (individually and collectively, the "Company Group") through the applicable Time Vesting Date (as defined below), as follows: [(a) [] of the Time-Based RSUs will vest at [], (b) [] of the Time-Based RSUs will vest at [], and (c) with respect to [] of the Time-Based RSUs will vest at [] (each of the dates set forth in clauses (a), (b) and (c) is, as to the corresponding portion of the Time-Based RSUs, a "Time Vesting Date")].

b. Performance Goals. The Performance-Based RSUs are subject to the performance goals set forth in Exhibit A (the "Performance Goals") and shall vest, in whole or in part, upon the Performance Vesting Date only if the Performance Goals are achieved and the Grantee has remained continuously employed by the Company Group through the end of the Service Period, or as otherwise provided herein. The Compensation Committee shall determine within 75 days after the last day of the Service Period whether the Performance Goals have been achieved, in whole or in part, in accordance with Exhibit A attached hereto. The value of any fractional shares will be paid to the Grantee through a separate disbursement. No vesting of Performance-Based RSUs shall be deemed to have occurred unless and until the Compensation Committee certifies in writing as to the portion of Performance Goals that have been achieved. The date on which the Compensation Committee certifies as to the achievement of the Performance Goals and the vesting of the Performance-Based RSUs is referred to in this Agreement as the "Performance Vesting Date".

c. No Rights as a Shareholder. Grantee will have no rights or privileges of a shareholder (including but not limited to, no right to vote the shares) with respect to shares underlying RSUs until such RSUs have vested and such shares have been issued.

d. Dividend-Equivalents. At the time of issuance of shares underlying vested RSUs pursuant to subsection 2(b) above, the Corporation shall also pay to Grantee an amount equal to the aggregate amount of all dividends declared and paid by the Corporation based on dividend record dates falling between the Date of Grant and the date of issuance in accordance with the number of shares issued. The dividend-equivalents will be reported as W-2 wages and, as such, will be subject to statutory withholding requirements for federal, state and local taxes. The computation set forth in this subparagraph is separate and distinct from the calculations and concepts set forth on Exhibit "A" hereto and the calculations and concepts set forth on Exhibit "A" hereto have no applicability to the calculation of the amount of dividends to be paid by the Corporation pursuant to this subparagraph.

e. Holding Period. All vested RSUs will be subject to a holding period ("Holding Period") until the earliest of:

- i. The two-year anniversary of such Time Vesting Date or Performance Vesting Date, as applicable;
- ii. The date of the Grantee's death or Disability (as defined in section 5 below); or
- iii. The date of consummation of a Change in Control (as defined in section 7 below).

For purposes of clarification, once shares underlying vested RSUs have been issued and until the expiration of the applicable Holding Period, Grantee shall have all of the rights and privileges of a shareholder with respect to such shares other than the right to sell, transfer, gift, or otherwise divest himself or herself of such shares. Notwithstanding anything herein to the contrary, the Corporation may lift the Holding Period with respect to any shares underlying vested RSUs where the sale of such shares is necessary to satisfy the payment of statutory federal, state and local withholding taxes including, without limitation, social security and medicare taxes.

4. Forfeiture.

a. Forfeiture. All Time-Based RSUs that have not vested at the applicable Time Vesting Date in accordance with subsection 3(a), and all Performance-Based RSUs that have not vested at the Performance Vesting Date in accordance with subsection 3(b) and Exhibit A attached hereto, shall be forfeited in their entirety.

b. Forfeiture of Unvested RSUs and Payment to the Corporation for Issued Shares Resulting from Vested RSUs If Grantee Engages in Certain Activities. The provisions of this subsection 4(b) will apply to all RSUs granted to Grantee under the Plan and to any shares issued to the Grantee upon vesting of RSUs. If, at any time during the Service Period, or for a period of two (2) years after termination of Grantee's employment for any reason, Grantee engages in any activity inimical, contrary or harmful to the interests of the Company Group including, but not limited to (A) conduct related to Grantee's employment for which either criminal or civil penalties against Grantee may be brought, (B) violation of the Company Group's policies including, without limitation, the Corporation's Insider Trading Policy, Code of Business Conduct and Ethics, Code of Personal Conduct, Employee Handbook, or otherwise, (C) soliciting of any customer of the Company Group for business which would result in such customer terminating their relationship with the Company Group; soliciting or inducing any individual who is an employee or director of the Company Group to leave the Company Group or otherwise terminate their relationship with the Company Group, (D) disclosing or using any confidential information or material concerning the Company Group, (E) breach of any agreement between the Grantee and the Company Group, or (F) participating in a hostile takeover attempt, then (x) all RSUs that have not vested effective as of the date on which Grantee engages in such activity, unless forfeited sooner by operation of another term or condition of this Agreement or the Plan, shall be forfeited in their entirety, and (y) for any shares underlying vested RSUs which have been issued to Grantee, the Grantee shall pay to the Corporation the market value of the shares on the date of issuance or the date Grantee engages in such activity, whichever is greater. The term "confidential information" as used in this Agreement includes, but is not limited to, records, documents, programs, technical data, information technology, policies, files, lists, client non-public personal information, pricing, costs, strategies, market data, statistics, business partners, customers, customer requirements, prospective customer contacts, knowledge of the Company Group's clients, methods of operation, processes, trade secrets, methods of determination of prices, fees, financial condition, profits, sales, net income, indebtedness, potential mergers or acquisitions, or the sale of Company Group assets or subsidiaries, commercial contracts and relationships, employees, litigation (whether actual or threatened), information acquired in connection with the Grantee's employment with the Company Group, including without limitation, proprietary or confidential information of any third party who may disclose such information to the Company Group or the Grantee in the course of Company Group business, and any other information relating to the Company Group that has not been made available to the general public, as the same may exist from time to time.

c. Right of Setoff. By accepting this Agreement, Grantee consents to the deduction, to the extent permitted by law, from any amounts that the Company Group owes Grantee from time to time (including amounts owed to Grantee as wages or other compensation, fringe benefits, or paid time-off pay, as well as any other amounts owed to Grantee by the Company Group), the amounts Grantee owes the Corporation under subsection 4(b) above. Whether or not the Corporation elects to make any setoff in whole or in part, if the Corporation does not recover by means of setoff the full amount Grantee owes it, calculated as set forth above, Grantee agrees to immediately pay the unpaid balance to the Corporation.

d. Compensation Committee Discretion. Grantee may be released from Grantee's obligations under subsections 4(b) and 4(c) only if the Compensation Committee, or its duly appointed agent, determines in its sole discretion that such action is in the best interest of the Corporation.

5. Death, Disability or Retirement. In the event the Grantee shall cease to be employed by the Company Group by reason of: (a) Retirement; (b) a transfer of the Grantee in a spinoff; (c) death; or (d) total and permanent disability as determined by the Compensation Committee ("Disability"), then the vesting requirements on a fraction of Grantee's RSUs will be deemed to have been fulfilled. With respect to the Time-Based RSUs, the vested portion shall be calculated as follows: the number of Time-Based RSUs granted multiplied by a fraction, the numerator of which is the number of full calendar months that elapsed in the Service Period prior to the death, Disability, Retirement or transfer in a spinoff of the Grantee and the denominator of which is the total number of full calendar months in the Service Period. With respect to the Performance-Based RSUs, the vested portion shall be calculated as follows: the number of Performance-Based RSUs that would have vested in accordance with Section 3 (b) had Grantee remained employed through the Service Period, multiplied by a fraction, the numerator of which is the number of full calendar months that elapsed in the Service Period prior to the death, Disability, Retirement or transfer in a spinoff of the Grantee and the denominator of which is the total number of full calendar months in the Service Period. Shares underlying all Time-Based RSUs that vest in accordance with the terms of this Section 5 shall be issued as soon as practicable following such vesting and Performance-Based RSUs that vest in accordance with the terms of this Section 5 shall be issued as soon as practicable following the Performance Vesting Date. Any remaining RSUs which have not vested as provided in this section 5 shall be forfeited.

6. Termination. If the Grantee terminates the Grantee's employment with the Company Group or if the Company Group terminates the Grantee's employment with or without Cause, other than as described in section 5 above, any RSUs that have not yet vested at the date of termination shall automatically be forfeited.

7. Change in Control. In the event of a Change in Control, Grantee's outstanding RSUs will be deemed to have vested and any shares underlying such RSUs not previously issued shall be issued within ten days after the Change in Control. For purposes of clarification, in such a situation, all Time-Based RSUs will vest, and Performance-Based RSUs will vest at the target levels as described in Exhibit A hereto. A "Change in Control" shall be deemed to have taken place if (i) any Person (as defined below) other than an entity in the Company Group or an employee benefit plan of the Company Group (or any Person organized, appointed or established by the Company Group for or pursuant to the terms of any such employee benefit plan), together with all affiliates and associates of such Person, becomes the beneficial owner in the aggregate of 25% or more of the common stock of the Corporation then outstanding, or (ii) during any twenty-four month period, individuals who at the beginning of such period constituted the Board of Directors of the Corporation or The Bryn Mawr Trust Company (the "Bank") cease, for any reason, to constitute a majority thereof, unless the election, or the nomination for election by the Corporation or the Bank's shareholders, as the case may be, of each director who was not a director at the beginning of such period was approved by a vote of at least two-thirds of the directors in office at the time of such election or nomination, who were directors at the beginning of such period.

8. Non-Interference and Non-Solicitation.

a. For a period of twelve (12) months following the date Grantee ceases to be employed by the Company Group for any reason, whether voluntarily or involuntarily (the "Separation Date"), Grantee agrees not to disrupt, damage, impair or interfere with the business of the Company Group in any manner, including without limitation, by: (a) employing, engaging or soliciting any employee of the Company Group; (b) inducing or attempting to influence an employee to leave the employ of the Company Group; (c) adversely influencing or altering the relationship of any person, firm, corporation, partnership, association or other entity ("Person") with the Company Group, whether such Person is an employee, customer, client or otherwise; or (d) directly or indirectly, individually or for any other, calling on, engaging in business with, soliciting, inducing, or attempting to solicit or induce, any Person who has been a customer, client or business referral source of the Company Group, or who has been solicited as a potential customer, client or business referral source of the Company Group, during the two (2) year period preceding the Separation Date to (x) cease doing business in whole or in part with or through the Company Group or (y) do business with any other Person which performs services or offers products materially similar to or competitive with those provided by the Company Group.

b. Grantee shall maintain confidential information (as defined in Section 4(b)) in the strictest of confidence, shall not disclose confidential information to any person outside of the Company Group, and shall not use, reproduce, disseminate, or take any other action with respect to confidential information other than in connection with Grantee's employment and for the benefit of the Company Group. Grantee shall not remove confidential information from Company Group premises unless necessary in connection with the performance of Grantee's job duties, and in such event, such confidential information shall be returned or destroyed immediately upon cessation of Grantee's employment with the Company Group. The obligations of Grantee under this Section 8(b) shall apply during Grantee's employment and following termination of Grantee's employment, and shall survive in perpetuity.

c. Grantee acknowledges and agrees that the restrictions contained in this section 8 are reasonable and necessary in order to protect the legitimate interests of the Company Group and that any violation thereof would result in irreparable injury to the Company Group. Consequently, Grantee acknowledges and agrees that, in the event of any violation thereof, the Company Group shall be authorized and entitled, without the necessity of posting a bond or other form of security, to obtain from any court of competent jurisdiction injunctive and equitable relief, as well as an equitable accounting of all profits and benefits arising out of such violation, which rights and remedies shall be cumulative and in addition to any other rights or remedies to which the Company Group may be entitled at law or in equity (including the rights of forfeiture set forth in section 4 hereof) and, in the event the Company Group is required to enforce the terms of this Agreement through court proceedings, the Company Group shall be entitled to reimbursement of all legal fees, costs and expenses incident to enforcement of any such term, in whole or in part and/or such term as may be modified by a court of competent jurisdiction.

d. If any court of competent jurisdiction construes any of the restrictive covenants set forth in this section 8, or any part thereof, to be unenforceable because of the duration, scope or geographic area covered thereby, such court shall have the power to reduce the duration, scope or geographic area of such provision and, in its reduced form, such provision shall then be enforceable and shall be enforced.

9. Change Adjustments. The Compensation Committee shall make appropriate adjustments to give effect to adjustments made in the number of shares of the Corporation's common stock through a merger, consolidation, recapitalization, reclassification, combination, spinoff, common stock dividend, stock split or other relevant change as the Compensation Committee deems appropriate to prevent dilution or enlargement of the rights of the Grantee. Any adjustments or substitutions pursuant to this section shall meet the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and shall be final and binding upon the Grantee.

10. Compliance with Law and Regulations. The grant of RSUs and the issuance of shares underlying vested RSUs shall be subject to all applicable federal and state laws, the rules and regulations and to such approvals by any government or regulatory agency as may be required. The Corporation shall not be required to register any securities pursuant to the Securities Act of 1933, as amended, or to list such shares under the stock market or exchange on which the common stock of the Corporation may then be listed, or to take any other affirmative action in order to cause the issuance or delivery of shares underlying vested RSUs to comply with any law or regulation of any governmental authority.

11. Notice. Any notice which either party hereto may be required or permitted to give to the other shall be in writing, and may be delivered personally or by mail, postage prepaid, addressed as follows: to the Corporation, Attention: Corporate Secretary, at its office at 801 Lancaster Avenue, Bryn Mawr, PA 19010 or to the Grantee at her/his address on the records of the Corporation or at such other addresses as the Corporation, or Grantee, may designate in writing from time to time to the other party hereto.

12. Employment. Neither the action of the Corporation or its shareholders, nor any action taken by the Compensation Committee under the Plan nor any provisions of this Agreement shall be construed as giving to the Grantee the right to be retained as an employee of the Company Group.

13. Payment of Taxes. Upon issuance of shares underlying the vested RSUs the value of the shares issued, calculated based on the closing price of the Corporation's common stock on the day preceding the applicable Vesting Date (whether vested Time-Based RSUs or vested Performance-Based RSUs), will constitute W-2 wages to the Grantee and, as such, will be subject to statutory federal, state and local withholding taxes. The Corporation will withhold a sufficient number of whole shares in order to satisfy this tax obligation. The remaining shares will be made available to the Grantee as soon as practicable. The value of any fractional shares will be paid to the Grantee through a separate disbursement.

14. Incorporation by Reference. This Restricted Stock Unit Award is granted pursuant and subject to the terms and conditions of the Plan, the provisions of which are incorporated herein by reference. If any provision of this Agreement conflicts with any provision of the Plan in effect on the Date of Grant, the terms of the Plan shall control. This Agreement shall not be modified after the Date of Grant except by written agreement between the Corporation and the Grantee; provided, however, that such modification shall (a) not be inconsistent with the Plan, and (b) be approved by the Committee.

15. Severability. Except as set forth in Section 8, if any one or more of the provisions contained in this Agreement are invalid, illegal or unenforceable, the other provisions of this Agreement will be construed and enforced as if the invalid, illegal or unenforceable provision had never been included.

16. Compliance with Internal Revenue Code Section 409A. It is the intention of the parties that the RSUs and the Agreement comply with the provisions of Section 409A of the Code to the extent, if any, that such provisions are applicable to the Agreement and the Agreement will be administered by the Compensation Committee in a manner consistent with this intent. If any payments or benefits may be subject to taxation under Section 409A of the Code, Grantee agrees that the Compensation Committee may, without the consent of Grantee, modify this Agreement to the extent and in the manner that the Compensation Committee deems necessary or advisable or take any other action or actions, including an amendment or action with retroactive effect that the Compensation Committee determines is necessary or appropriate to exempt any payments or benefits from the application of Section 409A or to provide such payments or benefits in the manner that complies with the provisions of Section 409A such that they will not be taxable thereunder.

17. Choice of Law. The provisions of this Agreement shall be construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to any conflict of law provision that would apply the law of another jurisdiction.

18. Interpretation. The interpretation and construction or any terms or conditions of the Plan or this Agreement by the Compensation Committee shall be final and conclusive.

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed by a duly authorized officer, and the Grantee has hereunto set his/her hand and seal, effective as of the Date of Grant set forth above.

BRYN MAWR BANK CORPORATION

By: _____
Name: Francis J. Leto
Title: President & CEO

(Signature of Grantee)

(Print Name of Grantee)

(Address of Grantee)

[EXHIBIT A]

TO RESTRICTED STOCK UNIT AGREEMENT DATED AS OF []

All of the terms and conditions of the Restricted Stock Unit Agreement dated as of [], (“Agreement”), to which this Exhibit is attached are incorporated herein by reference. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Agreement.

Name of Grantee: [_____]

1. Target Number of Performance-Vested Restricted Stock Units subject to vesting based on Total Shareholder Return (“TSR”): _____ [] _____

2. Target Number of Performance-Vested Restricted Stock Units subject to vesting based on Return on Average Equity (“ROAE”): _____ [] _____

3. Performance Goals: Except as otherwise set forth in the Award Agreement, the number of RSUs (rounded down to the nearest whole number of RSUs) that become nonforfeitable with respect to the Performance Period in accordance with the terms of the Award Agreement will be based on the Company’s relative TSR and ROAE Percentile Rank (as defined below) compared to the Peer Group (as defined below) in respect of the relevant Performance Period, as set forth in the chart below. Notwithstanding anything herein to the contrary, in the event of a Change in Control, the number of RSUs that vest shall be the greater of (i) 100% of target and (ii) the percent of target that would have been achieved based on actual TSR and ROAE Percentile Ranks calculated in accordance with the terms of this Exhibit A.

| | | | | |
|--|----------------------|--------------|----------------|-----------------------|
| TSR Percentile Rank^{1,2} | Less than 25% | 25% | 50% | 75% or Greater |
| ROAE Percentile Rank¹ | Less than 25% | 25% | 50% | 75% or Greater |
| Number of RSUs Vesting | 0 RSUs | 0% of target | 100% of target | 150% of target |

¹ If the applicable TSR or ROAE Percentile Rank is greater than 25% and less than 75% with respect to the relevant Performance Period, the number of RSUs that shall vest shall be prorated based on the actual level of performance achieved. For example, performance at the 37.5th percentile (halfway between the threshold of 25th percentile and the max of 50th percentile) for both metrics would result in 50% of target RSUs vesting (halfway between 0% at threshold and 100% at target).

² Provided however, if the Corporation’s TSR over the Performance Period is negative, no more than 100% of the target number of RSUs subject to TSR will vest.

4. For purposes of this Exhibit A, the following terms shall have the respective meanings set forth below:

a. “Peer Group” means the following financial institutions:

| Company Name | Ticker |
|--------------|--------|
|--------------|--------|

(1) Notwithstanding the foregoing, if at any time prior to the expiration of the Performance Period a member of the Peer Group ceases to be a domestically domiciled publicly traded company on a national stock exchange or market system; or has gone private; or has reincorporated in a foreign (e.g., non-U.S.) jurisdiction, regardless of whether it is a reporting company in that or another jurisdiction; or has been acquired by another company (whether by a peer company or otherwise, but not including internal reorganizations), or has sold all or substantially all of its assets, then such member shall be immediately removed from the Peer Group.

- b. "Performance Period" means (i) for measurement of ROAE, the 12-quarter period beginning July 1, 20 --- and ending June 30, 20 ---; and (i) for measurement of TSR, the 3-year period beginning [] and ending [].
- c. "ROAE" means (a) net income applicable to the common shareholders of a company during the Performance Period, divided by (b) that company's average common shareholders' equity during the Performance Period (as reported in the company's annual or quarterly report for the applicable fiscal period end) subject to adjustments for certain extraordinary or special items, in the form and manner determined in the Committee's sole discretion and if permitted by the IRS regulations under Section 162(m) of the Internal Revenue Code of 1986, as amended, relating to the "pre-established performance goal" rules, for any: change in accounting policy; gain/loss on disposition of assets or business; charge for goodwill impairment; extraordinary legal/regulatory settlements; extraordinary market conditions; significant currency fluctuations; effects of nature or man-made disasters; hyperinflation; change in statutory tax rates/regulations; charges or costs associated with Board-approved restructurings of the Company, including, but not limited to, acquisitions and mergers by the Company; results of discontinued operations held for sale after sale closing; other extraordinary, unusual or infrequently occurring items as determined under U.S. generally accepted accounting principles ("GAAP").
- d. "TSR" means, with respect to any company, the Company's total shareholder return, which will be calculated by dividing (i) the Closing Average Share Value by (ii) the Opening Average Share Value.
- e. "Opening Average Share Value" means the average, over the trading days in the Opening Average Period, of the closing price of a company's stock multiplied by the Accumulated Shares for each trading day during the Opening Average Period.
- f. "Opening Average Period" means the 20 trading days preceding [].
- g. "Accumulated Shares" means, solely for purposes of the calculation of TSR, for a given trading day, the sum of (i) one (1) share and (ii) a cumulative number of shares of the company's common stock purchased with the dividends declared on a company's common stock, assuming same day reinvestment of the dividends in the common stock of a company at the closing price on the ex-dividend date, for ex-dividend dates between the start of the Opening Average Period and the trading day.
- h. "Closing Average Share Value" means the average, over the trading days in the Closing Average Period, of the closing price of the company's stock multiplied by the Accumulated Shares for each trading day during the Closing Average Period.
- i. "Closing Average Period" means (i) in the absence of a Change in Control, the 20 trading days preceding []; or (ii) in the case of a Change in Control, the trading days during the period beginning thirty (30) calendar days prior to the Change in Control and ending on the Accelerated End Date.
- j. "Accelerated End Date" means the date five (5) calendar days (or such shorter period as may be established by the Compensation Committee in its sole discretion) prior to the Change in Control.
- k. "Percentile Rank" means the Company's relative percentile positioning in respect of the TSR or ROAE, as applicable, of the other members of the Peer Group.

-7-

[\(Back To Top\)](#)

Section 3: EX-10.34 (EXHIBIT 10.34)

Exhibit 10.34

**BRYN MAWR BANK CORPORATION
RESTRICTED STOCK UNIT AGREEMENT FOR NON-EMPLOYEE DIRECTORS
(SERVICE/PERFORMANCE-BASED)
SUBJECT TO THE AMENDED AND RESTATED 2010 LONG TERM INCENTIVE PLAN**

Grantee: []

Date of Grant: August 11, 2017

Total Number of RSUs: []

Number of time-based RSUs: [] ("Time-Based RSUs")

Target number of performance-based RSUs: [] ("Performance-Based RSUs")

Service Period: August 11, 2017 to August 11, 2020 ("Service Period")

Vesting Dates for Time-Based RSUs: []

Performance Goal: Certain conditions and goals as determined according to Exhibit A hereto

RESTRICTED STOCK UNIT AGREEMENT ("Agreement"), dated as of the Date of Grant set forth above by and between **BRYN MAWR BANK CORPORATION** (the "Corporation") and the Grantee named above (the "Grantee").

1. The Plan. This Agreement is subject to the terms and conditions of the [Amended and Restated Bryn Mawr Bank Corporation 2010 Long Term Incentive Plan (the "Plan") as approved by the Board of Directors of the Corporation on February 27, 2015 and by the Corporation's shareholders on April 30, 2015]. Except as otherwise specified herein, all capitalized terms used in this Agreement shall have the meanings given to them in the Plan.

2. Grant of Restricted Stock Units.

a. Subject to the terms and conditions of the Plan and this Agreement, and the Grantee's acceptance of same by execution of this Agreement, the Corporation's Management Development and Compensation Committee ("Compensation Committee") hereby grants to the Grantee the number of Restricted Stock Units set forth under "Total Number of RSUs" above (the "RSUs").

b. Upon vesting of the RSUs and satisfaction of all of the other terms and conditions in this Agreement, the Corporation will issue stock representing the shares underlying the vested RSUs (regardless of whether such RSUs are Time-Based RSUs or Performance-Based RSUs) as soon as practicable following the Time Vesting Date (as defined in subsection 3(a) below), in the case of the vested Time-Based RSUs, and the Performance Vesting Date (as defined in subsection 3(b) below), in the case of the Performance-Based RSUs.

3. Terms and Conditions. The Grant is subject to the following terms and conditions:

- a. Time-Based Requirements. The Time-Based RSUs will vest in three installments at the Time Vesting Dates (as defined below), provided that Grantee provides continuous service as a director of the Corporation through the applicable Time Vesting Date (as defined below), as follows: [(a) [] of the Time-Based RSUs will vest at [], (b) [] of the Time-Based RSUs will vest at [], and (c) with respect to [] of the Time-Based RSUs will vest at [] (each of the dates set forth in clauses (a), (b) and (c) is, as to the corresponding portion of the Time-Based RSUs, a "Time Vesting Date")].
- b. Performance Goals. The Performance-Based RSUs are subject to the performance goals set forth in Exhibit A (the "Performance Goals") and shall vest, in whole or in part, upon the Performance Vesting Date only if the Performance Goals are achieved and the Grantee has provided continuous service as a director of the Corporation through the end of the Service Period, or as otherwise provided herein. The Compensation Committee shall determine within 75 days after the last day of the Service Period whether the Performance Goals have been achieved, in whole or in part, in accordance with Exhibit A attached hereto. The value of any fractional shares will be paid to the Grantee through a separate disbursement. No vesting of Performance-Based RSUs shall be deemed to have occurred unless and until the Compensation Committee certifies in writing as to the portion of Performance Goals that have been achieved. The date on which the Compensation Committee certifies as to the achievement of the Performance Goals and the vesting of the Performance-Based RSUs is referred to in this Agreement as the "Performance Vesting Date".
- c. No Rights as a Shareholder. Grantee will have no rights or privileges of a shareholder (including but not limited to, no right to vote the shares) with respect to shares underlying RSUs until such RSUs have vested and such shares have been issued.
- d. Dividend-Equivalents. At the time of issuance of shares underlying vested RSUs pursuant to subsection 2(b) above, the Corporation shall also pay to Grantee an amount equal to the aggregate amount of all dividends declared and paid by the Corporation based on dividend record dates falling between the Date of Grant and the date of issuance in accordance with the number of shares issued. The computation set forth in this subparagraph is separate and distinct from the calculations and concepts set forth on Exhibit "A" hereto and the calculations and concepts set forth on Exhibit "A" hereto have no applicability to the calculation of the amount of dividends to be paid by the Corporation pursuant to this subparagraph.
- e. Holding Period. All vested RSUs will be subject to a holding period ("Holding Period") until the earliest of:
- i. The two-year anniversary of such Time Vesting Date or Performance Vesting Date, as applicable;
 - ii. The date of the Grantee's death or Disability (as defined in section 5 below); or
 - iii. The date of consummation of a Change in Control (as defined in section 7 below).

For purposes of clarification, once shares underlying vested RSUs have been issued and until the expiration of the applicable Holding Period, Grantee shall have all of the rights and privileges of a shareholder with respect to such shares other than the right to sell, transfer, gift, or otherwise divest himself or herself of such shares. Notwithstanding anything herein to the contrary, the Corporation may lift the Holding Period with respect to any shares underlying vested RSUs where the sale of such shares is necessary to satisfy the payment of statutory federal, state and local withholding taxes including, without limitation, social security and medicare taxes.

4. Forfeiture.

- a. Forfeiture. All Time-Based RSUs that have not vested at the applicable Time Vesting Date in accordance with subsection 3(a), and all Performance-Based RSUs that have not vested at the Performance Vesting Date in accordance with subsection 3(b) and Exhibit A attached hereto, shall be forfeited in their entirety.
- b. Forfeiture of Unvested RSUs and Payment to the Corporation for Issued Shares Resulting from Vested RSUs If Grantee Engages in Certain Activities. The provisions of this subsection 4(b) will apply to all RSUs granted to Grantee under the Plan and to any shares issued to the Grantee upon vesting of RSUs. If, at any time during the Service Period, or for a period of two (2) years after termination of Grantee's service as a director of the Corporation for any reason, Grantee engages in any activity inimical, contrary or harmful to the interests of the Corporation including, but not limited to (A) conduct related to Grantee's service for which either criminal or civil penalties against Grantee may be brought, (B) violation of the Corporation's or the Bank's policies including, without limitation, the Insider Trading Policy, Code of Business Conduct and Ethics, Code of Personal Conduct, Employee Handbook, or otherwise, (C) soliciting of any customer of the Corporation or any of its direct or indirect subsidiaries (collectively, the "Company Group") for business which would result in such customer terminating their relationship with the Company Group; soliciting or inducing any individual who is an employee or director of the Company Group to leave the Company Group or otherwise terminate their relationship with the Company Group, (D) disclosing or using any confidential information or material concerning the Company Group, (E) breach of any agreement between the Grantee and the Company Group, or (F) participating in a hostile takeover attempt, then (x) all RSUs that have not vested effective as of the date on which Grantee engages in such activity, unless forfeited sooner by operation of another term or condition of this Agreement or the Plan, shall be forfeited in their entirety, and (y) for any shares underlying vested RSUs which have been issued to Grantee, the Grantee shall pay to the Corporation the market value of the shares on the date of issuance or the date Grantee engages in such activity, whichever is greater. The term "confidential information" as used in this Agreement includes, but is not limited to, records, documents, programs, technical data, information technology, policies, files, lists, client non-public personal information, pricing, costs, strategies, market data, statistics, business partners, customers, customer requirements, prospective customer contacts, knowledge of the Company Group's clients, methods of operation, processes, trade secrets, methods of determination of prices, fees, financial condition, profits, sales, net income, indebtedness, potential mergers or acquisitions, or the sale of Company Group assets or subsidiaries, commercial contracts and relationships, employees, litigation (whether actual or threatened), information acquired in connection with the Grantee's role as a director to the Company, whether through board meetings, deliberations or discussions among directors, Company Group employees or agents, or relating to board dynamics generally, including, without limitation, proprietary or confidential information of any third party who may disclose such information to the Company Group or the Grantee in the course of Company Group business, and any other information relating to the Company Group that has not been made available to the general public, as the same may exist from time to time.

c. Right of Setoff. By accepting this Agreement, Grantee consents to the deduction, to the extent permitted by law, from any amounts that the Company Group owes Grantee from time to time and the amounts Grantee owes the Corporation under subsection 4(b) above. Whether or not the Corporation elects to make any setoff in whole or in part, if the Corporation does not recover by means of setoff the full amount Grantee owes it, calculated as set forth above, Grantee agrees to immediately pay the unpaid balance to the Corporation.

d. Compensation Committee Discretion. Grantee may be released from Grantee's obligations under subsections 4(b) and 4(c) only if the Compensation Committee, or its duly appointed agent, determines in its sole discretion that such action is in the best interest of the Corporation.

5. Death, Disability or Retirement. In the event the Grantee shall cease to be a director of the Corporation prior to the expiration of the Service Period by reason of: (a) Retirement; (b) a transfer of the Grantee in a spinoff; (c) death; or (d) total and permanent disability as determined by the Compensation Committee ("Disability"), then the vesting requirements on a fraction of Grantee's RSUs will be deemed to have been fulfilled. With respect to the Time-Based RSUs, the vested portion shall be calculated as follows: the number of Time-Based RSUs granted multiplied by a fraction, the numerator of which is the number of full calendar months that elapsed in the Service Period prior to the death, Disability, Retirement or transfer in a spinoff of the Grantee and the denominator of which is the total number of full calendar months in the Service Period. With respect to the Performance-Based RSUs, the vested portion shall be calculated as follows: the number of Performance-Based RSUs that would have vested in accordance with Section 3(b) had Grantee remained a director through the Service Period, multiplied by a fraction, the numerator of which is the number of full calendar months that elapsed in the Service Period prior to the death, Disability, Retirement or transfer in a spinoff of the Grantee and the denominator of which is the total number of full calendar months in the Service Period. Shares underlying all Time-Based RSUs that vest in accordance with the terms of this Section 5 shall be issued as soon as practicable following such vesting and Performance-Based RSUs that vest in accordance with the terms of this Section 5 shall be issued as soon as practicable following the Performance Vesting Date. Any remaining RSUs which have not vested as provided in this section 5 shall be forfeited.

6. Termination. If the Grantee ceases to be a director of the Corporation prior to the expiration of the Service Period for any reason other than as described in section 5 above, any RSUs that have not yet vested at the date of termination shall automatically be forfeited.

7. Change in Control. In the event of a Change in Control, Grantee's outstanding RSUs will be deemed to have vested and any shares underlying such RSUs not previously issued shall be issued within ten days after the Change in Control. For purposes of clarification, in such a situation, all Time-Based RSUs will vest, and Performance-Based RSUs will vest at the target levels as described in Exhibit A hereto. A "Change in Control" shall be deemed to have taken place if (i) any Person (as defined below) other than an entity in the Company Group or an employee benefit plan of the Company Group (or any Person organized, appointed or established by the Company Group for or pursuant to the terms of any such employee benefit plan), together with all affiliates and associates of such Person, becomes the beneficial owner in the aggregate of 25% or more of the common stock of the Corporation then outstanding, or (ii) during any twenty-four month period, individuals who at the beginning of such period constituted the Board of Directors of the Corporation or The Bryn Mawr Trust Company (the "Bank") cease, for any reason, to constitute a majority thereof, unless the election, or the nomination for election by the Corporation or the Bank's shareholders, as the case may be, of each director who was not a director at the beginning of such period was approved by a vote of at least two-thirds of the directors in office at the time of such election or nomination, who were directors at the beginning of such period.

8. Non-Interference and Non-Solicitation.

a. For a period of twelve (12) months following the date Grantee ceases to be a director of the Corporation for any reason, whether voluntarily or involuntarily (the "Separation Date"), Grantee agrees not to disrupt, damage, impair or interfere with the business of the Company Group in any manner, including without limitation, by: (a) employing, engaging or soliciting any employee of the Company Group; (b) inducing or attempting to influence an employee to leave the employ of the Company Group; (c) adversely influencing or altering the relationship of any person, firm, corporation, partnership, association or other entity ("Person") with the Company Group, whether such Person is an employee, customer, client or otherwise; or (d) directly or indirectly, individually or for any other, calling on, engaging in business with, soliciting, inducing, or attempting to solicit or induce, any Person who has been a customer, client or business referral source of the Company Group, or who has been solicited as a potential customer, client or business referral source of the Company Group, during the two (2) year period preceding the Separation Date to (x) cease doing business in whole or in part with or through the Company Group or (y) do business with any other Person which performs services or offers products materially similar to or competitive with those provided by the Company Group.

b. Grantee shall maintain confidential information (as defined in Section 4(b)) in the strictest of confidence, shall not disclose confidential information to any person outside of the Company Group, and shall not use, reproduce, disseminate, or take any other action with respect to confidential information other than in connection with Grantee's provision of services as a director of the Corporation and for the benefit of the Company Group. Grantee shall not remove confidential information from Company Group premises unless necessary in connection with the performance of Grantee's service, and in such event, such confidential information shall be returned or destroyed immediately upon cessation of Grantee's service with the Company Group. The obligations of Grantee under this Section 8(b) shall apply during Grantee's provision of services and following termination of Grantee's provision of services, and shall survive in perpetuity.

c. Grantee acknowledges and agrees that the restrictions contained in this section 8 are reasonable and necessary in order to protect the legitimate interests of the Company Group and that any violation thereof would result in irreparable injury to the Company Group. Consequently, Grantee acknowledges and agrees that, in the event of any violation thereof, the Company Group shall be authorized and entitled, without the necessity of posting a bond or other form of security, to obtain from any court of competent jurisdiction injunctive and equitable relief, as well as an equitable accounting of all profits and benefits arising out of such violation, which rights and remedies shall be cumulative and in addition to any other rights or remedies to which the Company Group may be entitled at law or in equity (including the rights of forfeiture set forth in section 4 hereof) and, in the event the Company Group is required to enforce the terms of this Agreement through court proceedings, the Company Group shall be entitled to reimbursement of all legal fees, costs and expenses incident to enforcement of any such term, in whole or in part and/or such term as may be modified by a court of competent jurisdiction.

d. If any court of competent jurisdiction construes any of the restrictive covenants set forth in this section 8, or any part thereof, to be unenforceable because of the duration, scope or geographic area covered thereby, such court shall have the power to reduce the duration, scope or geographic area of such provision and, in its reduced form, such provision shall then be enforceable and shall be enforced.

9. Change Adjustments. The Compensation Committee shall make appropriate adjustments to give effect to adjustments made in the number of shares of the Corporation's common stock through a merger, consolidation, recapitalization, reclassification, combination, spinoff, common stock dividend, stock split or other relevant change as the Compensation Committee deems appropriate to prevent dilution or enlargement of the rights of the Grantee. Any adjustments or substitutions pursuant to this section shall meet the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and shall be final and binding upon the Grantee.

10. Compliance with Law and Regulations. The grant of RSUs and the issuance of shares underlying vested RSUs shall be subject to all applicable federal and state laws, the rules and regulations and to such approvals by any government or regulatory agency as may be required. The Corporation shall not be required to register any securities pursuant to the Securities Act of 1933, as amended, or to list such shares under the stock market or exchange on which the common stock of the Corporation may then be listed, or to take any other affirmative action in order to cause the issuance or delivery of shares underlying vested RSUs to comply with any law or regulation of any governmental authority.

11. Notice. Any notice which either party hereto may be required or permitted to give to the other shall be in writing, and may be delivered personally or by mail, postage prepaid, addressed as follows: to the Corporation, Attention: Corporate Secretary, at its office at 801 Lancaster Avenue, Bryn Mawr, PA 19010 or to the Grantee at her/his address on the records of the Corporation or at such other addresses as the Corporation, or Grantee, may designate in writing from time to time to the other party hereto.

12. Incorporation by Reference. This Restricted Stock Unit Award is granted pursuant and subject to the terms and conditions of the Plan, the provisions of which are incorporated herein by reference. If any provision of this Agreement conflicts with any provision of the Plan in effect on the Date of Grant, the terms of the Plan shall control. This Agreement shall not be modified after the Date of Grant except by written agreement between the Corporation and the Grantee; provided, however, that such modification shall (a) not be inconsistent with the Plan, and (b) be approved by the Committee.

13. Severability. Except as set forth in Section 8, if any one or more of the provisions contained in this Agreement are invalid, illegal or unenforceable, the other provisions of this Agreement will be construed and enforced as if the invalid, illegal or unenforceable provision had never been included.

14. Compliance with Internal Revenue Code Section 409A. It is the intention of the parties that the RSUs and the Agreement comply with the provisions of Section 409A of the Code to the extent, if any, that such provisions are applicable to the Agreement and the Agreement will be administered by the Compensation Committee in a manner consistent with this intent. If any payments or benefits may be subject to taxation under Section 409A of the Code, Grantee agrees that the Compensation Committee may, without the consent of Grantee, modify this Agreement to the extent and in the manner that the Compensation Committee deems necessary or advisable or take any other action or actions, including an amendment or action with retroactive effect that the Compensation Committee determines is necessary or appropriate to exempt any payments or benefits from the application of Section 409A or to provide such payments or benefits in the manner that complies with the provisions of Section 409A such that they will not be taxable thereunder.

15. Choice of Law. The provisions of this Agreement shall be construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to any conflict of law provision that would apply the law of another jurisdiction.

16. Interpretation. The interpretation and construction of any terms or conditions of the Plan or this Agreement by the Compensation Committee shall be final and conclusive.

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed by a duly authorized officer, and the Grantee has hereunto set his/her hand and seal, effective as of the Date of Grant set forth above.

BRYN MAWR BANK CORPORATION

By: _____
Name: Francis J. Leto
Title:

(Signature of Grantee)

(Print Name of Grantee)

(Address of Grantee)

[EXHIBIT A]

TO RESTRICTED STOCK UNIT AGREEMENT DATED AS OF []

All of the terms and conditions of the Restricted Stock Unit Agreement dated as of [], (“Agreement”), to which this Exhibit is attached are incorporated herein by reference. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Agreement.

Name of Grantee: []

1. Target Number of Performance-Vested Restricted Stock Units subject to vesting based on Total Shareholder Return (“TSR”): []

2. Target Number of Performance-Vested Restricted Stock Units subject to vesting based on Return on Average Equity (“ROAE”): []

3. Performance Goals: Except as otherwise set forth in the Award Agreement, the number of RSUs (rounded down to the nearest whole number of RSUs) that become nonforfeitable with respect to the Performance Period in accordance with the terms of the Award Agreement will be based on the Company’s relative TSR and ROAE Percentile Rank (as defined below) compared to the Peer Group (as defined below) in respect of the relevant Performance Period, as set forth in the chart below. Notwithstanding anything herein to the contrary, in the event of a Change in Control, the number of RSUs that vest shall be the greater of (i) 100% of target and (ii) the percent of target that would have been achieved based on actual TSR and ROAE Percentile Ranks calculated in accordance with the terms of this Exhibit A.

| | | | | |
|--|----------------------|--------------|----------------|-----------------------|
| TSR Percentile Rank^{1,2} | Less than 25% | 25% | 50% | 75% or Greater |
| ROAE Percentile Rank¹ | Less than 25% | 25% | 50% | 75% or Greater |
| Number of RSUs Vesting | 0 RSUs | 0% of target | 100% of target | 150% of target |

¹ If the applicable TSR or ROAE Percentile Rank is greater than 25% and less than 75% with respect to the relevant Performance Period, the number of RSUs that shall vest shall be prorated based on the actual level of performance achieved. For example, performance at the 37.5th percentile (halfway between the threshold of 25th percentile and the max of 50th percentile) for both metrics would result in 50% of target RSUs vesting (halfway between 0% at threshold and 100% at target)..

² Provided however, if the Corporation’s TSR over the Performance Period is negative, no more than 100% of the target number of RSUs subject to TSR will vest.

4. For purposes of this Exhibit A, the following terms shall have the respective meanings set forth below:

a. “Peer Group” means the following financial institutions:

| Company Name | Ticker |
|--------------|--------|
|--------------|--------|

(1) Notwithstanding the foregoing, if at any time prior to the expiration of the Performance Period a member of the Peer Group ceases to be a domestically domiciled publicly traded company on a national stock exchange or market system; or has gone private; or has reincorporated in a foreign (e.g., non-U.S.) jurisdiction, regardless of whether it is a reporting company in that or another jurisdiction; or has been acquired by another company (whether by a peer company or otherwise, but not including internal reorganizations), or has sold all or substantially all of its assets, then such member shall be immediately removed from the Peer Group.

b. “Performance Period” means (i) for measurement of ROAE, the 12-quarter period beginning July 1, 20____ and ending June 30, 20____; and (i) for measurement of TSR, the 3-year period beginning [] and ending [].

- c. "ROAE" means (a) net income applicable to the common shareholders of a company during the Performance Period, divided by (b) that company's average common shareholders' equity during the Performance Period (as reported in the company's annual or quarterly report for the applicable fiscal period end) subject to adjustments for certain extraordinary or special items, in the form and manner determined in the Committee's sole discretion and if permitted by the IRS regulations under Section 162(m) of the Internal Revenue Code of 1986, as amended, relating to the "pre-established performance goal" rules, for any: change in accounting policy; gain/loss on disposition of assets or business; charge for goodwill impairment; extraordinary legal/regulatory settlements; extraordinary market conditions; significant currency fluctuations; effects of nature or man-made disasters; hyperinflation; change in statutory tax rates/regulations; charges or costs associated with Board-approved restructurings of the Company, including but not limited to, acquisitions and mergers by the Company; results of discontinued operations held for sale after sale closing; other extraordinary, unusual or infrequently occurring items as determined under U.S. generally accepted accounting principles ("GAAP").
- d. "TSR" means, with respect to any company, the Company's total shareholder return, which will be calculated by dividing (i) the Closing Average Share Value by (ii) the Opening Average Share Value.
- e. "Opening Average Share Value" means the average, over the trading days in the Opening Average Period, of the closing price of a company's stock multiplied by the Accumulated Shares for each trading day during the Opening Average Period.
- f. "Opening Average Period" means the 20 trading days preceding [].
- g. "Accumulated Shares" means, solely for purposes of the calculation of TSR, for a given trading day, the sum of (i) one (1) share and (ii) a cumulative number of shares of the company's common stock purchased with the dividends declared on a company's common stock, assuming same day reinvestment of the dividends in the common stock of a company at the closing price on the ex-dividend date, for ex-dividend dates between the start of the Opening Average Period and the trading day.
- h. "Closing Average Share Value" means the average, over the trading days in the Closing Average Period, of the closing price of the company's stock multiplied by the Accumulated Shares for each trading day during the Closing Average Period.
- i. "Closing Average Period" means (i) in the absence of a Change in Control, the 20 trading days preceding []; or (ii) in the case of a Change in Control, the trading days during the period beginning thirty (30) calendar days prior to the Change in Control and ending on the Accelerated End Date.
- j. "Accelerated End Date" means the date five (5) calendar days (or such shorter period as may be established by the Compensation Committee in its sole discretion) prior to the Change in Control.
- k. "Percentile Rank" means the Company's relative percentile positioning in respect of the TSR or ROAE, as applicable, of the other members of the Peer Group.

-7-

[\(Back To Top\)](#)

Section 4: EX-10.45 (EXHIBIT 10.45)

Exhibit 10.45



November 20, 2017

Ms. Jennifer Dempsey Fox
229 Forrest Avenue
Narberth, PA 19072

Subject: Employment Agreement

Dear Jennifer:

In consideration of the mutual promises contained in this employment agreement (this "**Agreement**") and intending to be legally bound, Bryn Mawr Bank Corporation (the "**Corporation**"), its wholly owned subsidiary, The Bryn Mawr Trust Company (the "**Bank**"), and you, Jennifer Dempsey Fox, agree that you will be employed by the Corporation and the Bank on the following terms and conditions:

1. Your Employment By the Corporation.

(a) Effective as of December 15, 2017 (your "**Employment Date**"), you will become the Executive Vice President, Wealth Management Division of the Bank, and a Vice President of the Corporation. You will report to the Corporation's and the Bank's Chief Executive Officer. You agree to serve as a member of any committee in the Company Group (as defined below) to which you may be elected or appointed. In addition, you agree to serve as a director and/or officer of any other subsidiary of the Corporation or the Bank, and of any investment or mutual fund formed by the Bank or the Corporation, to which you may be elected or appointed. For purposes of this Agreement, "**Company Group**" shall mean (i) collectively, the Corporation, the Bank and their subsidiaries, and any investment or mutual fund formed by the Bank or the Corporation, and (ii) where applicable, any such entity individually.

2. Employment At-Will.

You acknowledge that your employment is at-will and not of any specific duration. Either you, on the one hand, or the Corporation or the Bank, on the other hand, may terminate your employment at any time and for any reason, subject to the provisions of Section 8.

3. Your Duties During the Term of Employment.

You shall devote your full business time (with allowances for PTO), attention and best efforts to the affairs of the Company Group during the term of employment hereunder; provided, however, that you may serve as a director or trustee of corporations or other entities and may engage in other activities to the extent that they do not inhibit the performance of your duties hereunder, or conflict with the business affairs of the Corporation, the Bank or their subsidiaries or the Corporation's Code of Business Conduct and Ethics (the "**Code of Ethics**"), a current copy of which has been reviewed by you. You always shall conduct yourself in a manner that maintains the good reputation of the Corporation, the Bank and their subsidiaries. You shall comply with all lawful policies that from time to time may be in effect at the Corporation and the Bank or adopted by the Corporation and the Bank and communicated to you. You shall not directly or indirectly undertake or accept other employment or compensation for services rendered (except to the extent expressly permitted under the Code of Ethics) during the term of your employment with the Corporation and the Bank without having obtained the prior approval of the Corporation's and the Bank's Chief Executive Officer. So long as you remain employed by the Corporation and the Bank, any and all business opportunities from whatever source which you may receive or otherwise become aware of in connection with your employment with the Corporation and the Bank relating to the business of the Company Group shall belong to the Company Group, and, unless the Company Group specifically, after full disclosure by you of each and any such opportunity, waives its right in writing, the Company Group shall have the sole right to act upon any of such business opportunities as it deems advisable.

You have reviewed with the Corporation's Chief Executive Officer your present directorships, public service commitments and personal business interests, which are listed on Exhibit A attached hereto and incorporated by reference herein, and have obtained the Chief Executive Officer's written approval for your continuance in such present capacities, unless, hereafter, the Chief Executive Officer determines in a particular case, that there is a potential conflict with the Company Group's best interests. Without prejudice to the provisions of Section 10 of this Agreement, you hereby agree that your acceptance of any future proposed directorships or positions in other organizations will be subject to prior review and approval by the Corporation's Compliance Officer (under the Code of Ethics) and to compliance with the Code of Ethics.

4. Compensation and Related Matters.

(a) Salary. Commencing on the Employment Date and thereafter during the term of your employment hereunder, the Bank shall pay to you an annual salary of \$310,000, less all applicable taxes and other withholdings, in equal biweekly installments in arrears ("**Base Salary**"). Your Base Salary may be adjusted from time to time in accordance with normal business practices of the Bank and in the Bank's sole discretion.

(b) Bonus. For each fiscal year ending during your employment, including 2018 on a pro rata basis, you will be eligible to earn an annual bonus. The actual bonus payable, if any, with respect to a particular year will be determined by the Boards of Directors of the Corporation or the Bank (as applicable), based on the achievement of corporate and/or individual performance objectives established by such Board, provided that you must be employed by the Corporation on the date the bonus is paid in order to receive such payment. For purposes of determining any bonus payable to you, the measurement of corporate and individual performance will be performed by the Boards of Directors of the Corporation or the Bank (as applicable) in good faith. From time to time, such Board may, in its sole discretion, make adjustments to corporate or individual performance goals, so that required departures from the Corporation's or Bank's (as applicable) operating budget, changes in accounting principles, acquisitions, dispositions, mergers, consolidations and other corporate transactions, and other factors influencing the achievement or calculation of such goals do not affect the operation of this Section 4(b) in a manner inconsistent with its intended purposes.

(c) Equity Awards. In the discretion of the Board of Directors of the Corporation (or any appropriate committee thereof), you will be eligible to receive a grant of restricted stock units (“RSUs”) with a grant date fair value equal to \$325,000 pursuant to the Corporation’s equity compensation plans as in effect from time to time. Such grant of RSUs shall be made in the fourth quarter of 2017. Subject to your continued employment with the Company Group, such RSUs shall vest in substantially equal annual installments on each of the first three anniversaries of the grant date.

In addition, during your employment (including in 2018), you may be eligible to receive other equity compensation awards in the discretion of the Board of Directors of the Corporation (or any appropriate committee thereof) pursuant to the Corporation’s equity compensation plans as in effect from time to time. To the extent you receive any such other equity compensation awards from the Corporation, all or a portion of such equity compensation awards may be conditioned on the achievement of certain performance objectives (relating to your performance, the Corporation’s performance, the Bank’s performance, or a combination thereof) that are specified by the Board of Directors of the Corporation (or any appropriate committee thereof) at the time of grant.

(d) Expenses. During the term of your employment hereunder, you shall be entitled to receive prompt reimbursement for all reasonable expenses you incur in performing your duties hereunder, including all expenses of travel and living expenses while away from home on business in the service of the Company Group, provided that such expenses are incurred and accounted for in accordance with the policies and procedures established by the Company Group at the time the expenses are incurred (the “**Expense Reimbursement Policy**”).

(e) Plan Benefits. During the term of your employment hereunder, you shall be entitled to participate in all of the Corporation’s and the Bank’s employee benefit plans and arrangements made generally available to their executives and key management employees in effect on your Employment Date, including, without limitation, each pension and retirement plan and arrangement, life insurance and health and accident plan and arrangement, medical insurance plan, disability plan, survivor income plan, vacation plan and bonus plan. You shall be entitled to participate in or receive benefits under any employee benefit plan or arrangement made generally available by the Corporation or the Bank in the future to its executives and key management employees, subject to, and on a basis consistent with, the terms, conditions and overall administration of such plans and arrangements. Nothing paid to you under any plan or arrangement presently in effect or made available in the future shall be deemed to be in lieu of the salary payable to you pursuant to subsection (a) of this Section 4. Notwithstanding the foregoing, nothing in this Agreement will be interpreted as limiting the Corporation’s or the Bank’s ability to amend, modify or terminate such employee benefit plans and arrangements at any time for any reason.

(f) Paid Time Off ("PTO"). You shall be entitled to the number of PTO days in each calendar year determined in accordance with the Bank's PTO policy in effect from time to time. Under the Bank's current PTO policy, you will be entitled to 33 days of PTO for 2018, subject to change in accordance with any revision to the Bank's PTO policy. You shall also be entitled to all paid holidays given by the Bank to its executives.

(g) Signing Bonus. You shall be entitled to receive a \$200,000 signing bonus; provided, however, that you shall be obligated to immediately repay such signing bonus in full to the Bank should your employment be terminated pursuant to Section 8(a)(iii) or Section 8(a)(vi) hereof on or before December 31, 2019, and the Bank shall have the right to offset such amount against any other amounts that may be due and owing to you in connection with such termination of employment.

5. Performance of Additional Duties and Offices.

If you are elected or appointed a director or officer of any subsidiary of the Corporation (other than the Bank) or the Bank, you hereby agree to serve without compensation in respect of such positions (other than as provided in this Agreement).

6. Place of Performance of Employment.

In connection with your employment by the Corporation and the Bank, you shall be based at the principal wealth management offices of the Corporation and the Bank in Bryn Mawr, Pennsylvania, except for required travel on the Company Group's business.

7. Confidential Information.

(a) You recognize and acknowledge that confidential information (as defined below) is a valuable, special and unique asset of the Company Group. As a result, you hereby agree not to disclose, while in the employ of the Company Group or at any time thereafter, to any person or entity, any confidential information obtained by you while in the employ of the Company Group, and not to use such confidential information except as authorized in the performance of your duties for the Company Group. These obligations are in addition to, and do not limit in any way your obligations with respect to trade secrets, confidential information or proprietary information under any statute or common law. The term "confidential information" as used in this Agreement means all knowledge and information concerning the Company Group including, without limitation, the Company Group's employees, clients, customers, business referral sources, fee arrangements (for clients and business/referral sources), client contacts, prospect lists, client lists, lists of business referral sources, products, services, methods of operation, investment strategies and programs, terms of contracts with vendors, sales, pricing, costs, financial condition, non-public personal information about clients and employees, client financial information including assets and investments, needs, goals, business systems, software and marketing techniques and procedures and any other information of a similar nature, and knowledge and information acquired in connection with your role as a director of the Bank, whether through board meetings, deliberations, or discussions among or between directors, employees or agents, or relating to board dynamics generally.

(b) Confidential information shall not include information or data that is readily available to the general public so long as such information did not become available to the general public as a direct or indirect result of your breach of your obligations under this Agreement.

(c) In the event that you receive a request or are required by applicable law to disclose all or any part of the confidential information to a court, arbitral panel, governmental entity agency or other tribunal, you will promptly notify the Bank of the request, consult with and assist the Bank in seeking a protective order or request for other appropriate remedy. In the event that such protective order or remedy is not obtained or that the Bank waives compliance if so requested with the terms hereof, you shall disclose only that portion of the confidential information which, in the opinion of your counsel reasonably acceptable to the Bank, is legally required to be disclosed, and will exercise your reasonable best efforts to assure that confidential treatment will be accorded said confidential information by the party(ies) receiving the same. You shall provide the Bank with an opportunity to review the confidential information prior to its disclosure to the extent permitted by law or regulation.

(d) You hereby agree that, upon leaving the Bank's employ, you shall deliver to the Bank any and all Company Group property including, but not limited to, Company Group information and documents, wherever stored, including any documents, files, reports or other information that you received or made in connection with your employment with the Company Group, regardless of whether or not such information is confidential information) and equipment (including, but not limited to, access cards, company credit cards, cell phones and computer equipment).

8. Termination of Employment.

(a) Your employment hereunder may be terminated without any breach of this Agreement under the following circumstances:

(i) Death. Your employment hereunder shall terminate upon your death.

(ii) Disability. The Corporation and the Bank may terminate your employment hereunder because of your incapacity due to physical or mental illness, causing your inability, on a full-time basis, to perform your essential job duties with or without a reasonable accommodation for the entire period of 90 consecutive days or for such shorter period the extension of which would present an undue hardship to the Corporation or the Bank (the "**Disability Period**"), to the extent permitted by law. Your employment will not be terminated pursuant to this provision until 30 days after your receipt of a Notice of Termination (which may be sent to you before or after the end of the Disability Period), following which you have not returned to the performance of your essential job duties with or without a reasonable accommodation on a full-time basis prior to the expiration of such 30 day period.

(iii) Cause. The Corporation and the Bank may terminate your employment hereunder for Cause. For purposes of this Agreement, the Corporation and the Bank shall have “Cause” to terminate your employment upon (i) your continued failure to substantially perform your job duties (other than any such failure resulting from your incapacity due to physical or mental illness as provided in subsection (a)(ii) of this Section 8), after a written demand for your substantial performance is delivered to you by the Corporation and the Bank which specifically identifies the manner in which the Corporation and the Bank believe you have not substantially performed your duties, and you have failed, in the good faith judgment of the Corporation and the Bank, to provide the performance demanded within 30 days after your receipt of such written demand; or (ii) your engagement in gross negligence or misconduct which is materially injurious to the Corporation, the Bank or any of their subsidiaries, monetarily or otherwise; or (iii) your plea of nolo contendere or guilty with respect to or conviction of a crime involving moral turpitude or dishonesty, or any felony; or (iv) any misappropriation of funds by you; (v) or your use, possession or distribution of, or being under the influence of, drugs or alcohol during working time or work-related activities or in a manner that is injurious to the reputation of the Company Group, provided that the foregoing shall exclude the use of prescription medication(s) in accordance with your prescribing doctor’s instructions and the consumption of alcohol in a responsible, non-injurious manner during appropriate work-related activities; or (vi) your making a general assignment for the benefit of your creditors or your institution of any proceeding seeking to adjudicate you bankrupt or insolvent under any laws relating to bankruptcy or insolvency or an involuntary petition shall be filed against you seeking relief under any law relating to bankruptcy or insolvency which remains undismissed for a period of 60 days or more; or (vii) your willful violation of the provisions of this Agreement and your failure to cure such violation within 30 days after receipt of written notice of such violation; or (viii) the receipt of a request by the Company Group, of a notice from any of the governmental agencies that supervise any of them, that you be suspended or removed from any position that you then hold with the Company Group.

Notwithstanding any other provision of this Agreement to the contrary, a termination of your employment for Cause shall not delay or otherwise interfere with any action taken by any governmental agency to suspend or remove you from any position held by you with the Company Group. If you are suspended and/or temporarily prohibited from participating in the conduct of the affairs of the Company Group by a notice served under Section 8(e)(3) or (g)(1) of the Federal Deposit Insurance Act, the Corporation’s and the Bank’s obligations under this Agreement shall be suspended as of the date of service unless stayed by appropriate proceedings. If you are removed and/or permanently prohibited from participating in the conduct of the Company Group affairs by an order issued under Section 8(e)(4) or (g)(1) of the Federal Deposit Insurance Act, all obligations of the Corporation and the Bank under this Agreement shall terminate as of the effective date of the order.

(iv) Termination without Cause. The Corporation and the Bank may terminate your employment at any time without Cause.

(v) Voluntary Termination for Good Reason. You may terminate your employment hereunder for Good Reason. For purposes of this Agreement, you shall have "Good Reason" to terminate your employment upon the first to occur of: (i) a significant reduction by the Corporation of your authority, duties or responsibilities hereunder; or (ii) any removal of you from your Executive Vice President, Wealth Management Division position with the Bank; (iii) a reduction by the Corporation or the Bank in your Base Salary (other than a reduction that is imposed proportionately on all members of the Corporation's or the Bank's senior executives, or pursuant to a program or formula that is applied equally to all members of the Corporation's or the Bank's senior executives); or (iv) a change by the Corporation or the Bank in your principal place of employment to a location that increases your one-way daily commute by more than 35 miles. None of the foregoing events or conditions will constitute Good Reason unless you provide the Corporation and the Bank with notice describing the event or condition within 30 days following the occurrence thereof, the Corporation and the Bank do not cure the event or condition within 30 days of receiving that written objection, and you resign your employment within 15 days following the expiration of that cure period by providing a Notice of Termination to the Corporation and the Bank.

(vi) Voluntary Termination. You may terminate your employment hereunder at any time upon not less than 30 days prior written notice to the Corporation and the Bank.

Any termination of your employment by the Corporation and the Bank or by you (other than termination pursuant to subsection (a)(i) of this Section 8) shall be communicated by a Notice of Termination to the other party hereto. For purposes of this Agreement, a "**Notice of Termination**" shall mean a notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) briefly summarizes the facts and circumstances deemed to provide a basis for termination of your employment under the provision so indicated, and (iii) specifies the termination date.

(b) For the purposes of this Agreement, "**Date of Termination**" shall mean (i) if your employment is terminated by death, the date of death, (ii) if your employment is terminated pursuant to subsection (a)(ii) of this Section 8, 30 days after Notice of Termination is sent to you (provided that you shall not have returned to the performance of your essential job duties on a full-time basis during such 30 day period) and if requested by the Board of Directors of the Bank or a committee thereof, you agree to undergo a medical examination by a doctor selected by the Board or such committee which confirms that you are fit to continue full-time employment hereunder to the extent permitted by law, or (iii) if your employment or this Agreement is terminated for any other reason, the date specified in a Notice of Termination.

(c) Upon termination of your employment for any reason, unless otherwise consented to in writing by the Board of Directors of the Corporation and the Bank, you agree to resign immediately from any and all officer, director, committee member and other positions you then hold with the Company Group.

(d) Upon termination of your employment for any reason, you agree that all documents, records, forms, notebooks, client lists, manuals, computer records or files, and similar materials containing any information regarding the business of the Company Group or their clients or customers, whether or not such materials contain confidential information (as defined in Section 7 above), including any copies thereof, then in your possession, whether prepared by you or others, will be left with or promptly returned to the Corporation and the Bank. You further agree that upon termination of your employment for any reason, you shall not leave with or promptly return to the Corporation and the Bank, all other property of the Company Group, including but not limited to computers and personal communication devices.

9. Compensation in the event of Death, During Disability Period or Upon Other Termination.

(a) Upon the termination of your employment for any reason other than for Cause, you shall be entitled to the following payments and benefits in addition to any other payments and benefits set forth in this Section 9: (i) all earned but unpaid Base Salary compensation, (ii) all accrued but unused PTO; (iii) reimbursement for expenses incurred prior to your Date of Termination that are otherwise reimbursable under Section 4(d) provided that all necessary documentation is submitted in accordance with the Expense Reimbursement Policy not more than 5 business days after your Date of Termination; (iv) all vested benefits and deferred compensation under the Corporation's and the Bank's employee benefit plans, programs and arrangements in accordance with the applicable terms and conditions thereof; and (v) all payments due to you under the terms of your outstanding equity awards in accordance with the applicable terms and conditions thereof (collectively, the "**Accrued Benefits**").

(b) If your employment shall be terminated because of your death, the Bank shall pay to your estate (i) your Accrued Benefits and (ii) to the extent not included in the Accrued Benefits, your Base Salary through the last day of the month of your death at the rate in effect at the time of your death, and the Company Group shall have no further obligations to you under this Agreement.

(c) If your employment shall be terminated because you are unable to perform your essential job duties hereunder as a result of incapacity due to physical or mental illness that is a disability as defined in subsection 8(a)(ii) hereof, the Bank shall pay you (i) your Accrued Benefits and (ii) your full Base Salary for a period equal to the applicable "elimination period" under any group long-term disability insurance provided by the Corporation or the Bank which is currently 180 days, and the Company Group shall have no further obligations to you under this Agreement; provided, however, that such Base Salary payment shall be reduced by any amounts paid to you under the Corporation's or the Bank's short term disability plan or policy. In the event that the Corporation or the Bank ceases to provide group long-term disability insurance with an elimination period of at least 180 days to you, you shall be entitled to payment of your Base Salary (reduced as described in the preceding sentence) through the last day of the 180 day period following your Date of Termination, and the Company Group shall have no further obligations to you under this Agreement.

(d) If your employment shall be terminated for Cause, the Bank shall pay you your earned but unpaid Base Salary through the Date of Termination, and the Company Group shall have no further obligations to you under this Agreement.

(e) If the Corporation and the Bank shall terminate your employment under subsection 8(a)(iv) or you terminate your employment under Section 8(a)(v):

(i) the Bank shall pay you your Accrued Benefits, through the Date of Termination, at the rate in effect on the date of the Notice of Termination; and

(ii) in lieu of any further salary and other payments that may be due and owing to you from the Company Group, the Bank shall pay you an amount equal to 1 year of your Base Salary at the rate in effect on the date of the Notice of Termination, in substantially equal biweekly installments, and shall pay 100% of the applicable premiums for COBRA continuation coverage for you and your eligible dependents for a period of 12 months following your Date of Termination (or, if earlier, until the date that you and your eligible dependents are no longer eligible for COBRA continuation coverage under the Corporation's or the Bank's group health plans), in each case provided that (i) you execute, deliver to the Corporation and the Bank and do not revoke during any applicable statutory revocation period, by the 60th day following the effective date of your cessation of employment, a Separation Agreement and Release in a form acceptable to the Corporation and the Bank and (ii) you continue to comply with the provisions of Section 7 and Section 10. Severance payments will not begin until the revocation period set forth in the Separation Agreement and Release expires and your release becomes non-revocable, provided that if the 60 day period described above begins in one taxable year and ends in a second taxable year such payments or benefits shall not commence until the second taxable year. Upon payment of the amounts set forth in this Section 9(e) (subject to your compliance with clause (ii) above), the Company Group shall have no further obligations to you under this Agreement.

(f) If you shall terminate your employment under Section 8(a)(vi), the Bank shall pay you your earned but unpaid Base Salary through the Date of Termination, and the Company Group shall have no further obligations to you under this Agreement.

(g) You shall not be required to mitigate the amount of any payment provided for in this Section 9 by seeking other employment or otherwise, except as provided in subsection 10(b). Notwithstanding anything herein to the contrary, the Corporation's and Bank's obligations under this Section 9 shall survive termination of this Agreement.

10. Restrictive Covenants.

(a) Definitions. As used in this Section 10, the term "Restricted Period" shall mean a period commencing on the date hereof and continuing for 24 months after completion of the Company Group's payment of compensation to you hereunder; and the term "Business" shall mean any business in which any member of the Company Group is engaged at any time during the term of your employment and also encompasses any field or line of business with respect to which any member of the Company Group is engaged in research and/or development at any time during the term of your employment.

(b) Non-Competition. You shall not, during the 12 months following the Date of Termination, directly or indirectly, without the prior written consent of the Corporation and the Bank:

(i) engage, manage, operate, join, control or participate in, or assist or advise any other person engaged or proposing to engage in, any business activity competitive with the Business of the Company Group anywhere in the Restricted Area (as defined below); or

(ii) become an owner, stockholder, lender, partner, co-venturer, director, officer, employee, agent, consultant, representative or otherwise in or with any person or other entity engaged, directly or indirectly, in whole or in part, in any business that is competitive with the Business of the Company Group in the Restricted Area. Notwithstanding the foregoing, you, solely as a passive investment, may hold up to one percent (1%) of the outstanding securities of any class of any publicly-owned corporation.

The term "**Restricted Area**" shall mean anywhere within a 100 mile radius of a branch or other place of business of the Company Group. If, however, a court determines that the Restricted Area as defined in the immediately preceding sentence is overly broad, then the "**Restricted Area**" shall mean anywhere within a 100 mile radius of Bryn Mawr, Pennsylvania.

(c) Non-Solicitation. You shall not, during the Restricted Period, directly or indirectly, without the prior written consent of the Corporation and the Bank:

(i) on your own behalf or on behalf of any person or entity ("**Person**") other than the Company Group, directly or indirectly, solicit, entice, induce, canvas, call on, provide services to, contract with, or accept Business from, any customer or client, or prospective customer or prospective client, of the Company Group or any Person that was a customer or client of the Company Group at any time within two (2) years prior to the termination of your employment with the Company Group for the purpose of engaging in any Business;

(ii) influence or attempt to influence any Person engaged in Business with the Company Group to terminate or modify any written or oral agreement or course of dealing with the Company Group; or

(iii) influence or attempt to influence any Person who is then employed or retained by the Company Group as an employee, officer, director, consultant or agent or has served in any such capacity on behalf of the Company Group within two (2) years prior to the time of the solicitation to terminate or modify his, her or its employment, consulting, agency or other arrangement with the Company Group, or employ or retain, or arrange to have any other Person employ or retain, any such current or former Company Group employee, officer, director, consultant or agent.

(d) No Conflicts. You represent and warrant that you are not a party to or bound by any agreement, arrangement or understanding, whether written or otherwise, which prohibits or in any manner restricts your ability to enter into and fulfill your obligations under this Agreement and/or which would in any manner, directly or indirectly, limit or affect the duties and responsibilities which may now or in the future be assigned to you, and you agree that you will not enter into, any oral or written agreement in conflict herewith. You have respected and at all times in the future will continue to respect the rights of your previous employer(s) in trade secret and confidential information in accordance with applicable agreements, including that certain, Restricted Share Units Award Agreement, dated August 30, 2017, between you and The PNC Financial Services Group, Inc., and applicable law. You have left with your previous employers all proprietary documents, computer software programs, computer discs, customer lists, and any other material which is proprietary to your previous employer(s), have not taken copies of any such materials and will not remove or cause to be removed any such material or copies of any such material from such previous employer(s) in violation of your agreements, if any, with previous employers. You will indemnify and hold harmless the Company Group and its and their successors and assigns from any claims, liabilities, damages, costs and expenses (including legal fees) resulting from third-party claims of any such conflict, violation or breach.

(e) Remedies. You acknowledge that the Company Group is and will be engaged in highly competitive businesses and that the confidential information, as well as its respective business techniques and programs, are of great significance in enabling it to compete and participate in the various markets in which it is active. You further acknowledge that the Company Group does conduct business on a global basis, and that its products and services are or will be distributed throughout the world. You acknowledge and agree that the restrictions contained in Section 7 and Section 10 of this Agreement are reasonable and necessary in order to protect the legitimate interests of the Company Group and that any violation thereof would result in irreparable injury to the Company Group. Consequently, you acknowledge and agree that, in the event of any violation thereof, the Company Group shall be authorized and entitled to obtain from any court of competent jurisdiction injunctive and equitable relief, including, without limitation, specific performance, temporary restraining order, preliminary injunction, permanent injunction or other interim or conservative relief, as well as an equitable accounting of all profits and benefits arising out of such violation, which rights and remedies shall be cumulative and in addition to any other rights or remedies to which the Company Group may be entitled at law or in equity. In the event court proceedings are initiated in order to enforce the terms of this Agreement, the prevailing party will be entitled to reimbursement by the non-prevailing party of all legal fees, costs and expenses incident to such court proceedings. You will not seek, and waive any requirement for, the securing or posting of a bond or proving actual damages in connection with the Company Group's or its or their successors or assigns seeking or obtaining injunctive or equitable relief in connection with your covenants or other obligations under this Agreement. If, despite the foregoing waivers, a court would nonetheless require the posting of a bond, the parties agree that a bond in the amount of \$1,000 would be a fair and reasonable amount, particularly in light of the difficulty in quantifying what would be the actual loss caused by an injunction.

(f) Scope; Tolling. If any court of competent jurisdiction construes any of the restrictive covenants set forth in this Agreement, or any part thereof, to be unenforceable because of the duration, scope or geographic area covered thereby, such court shall have the power to reduce the duration, scope or geographic area of such provision and, in its reduced form, such provision shall then be enforceable and shall be enforced. The parties agree to enter into any and all amendments to this Agreement in order to effectuate the intent of the immediately preceding sentence. In the event of any breach or violation of a restriction contained in this Agreement, the period therein specified shall abate during the time of such violation, and that portion shall not begin to run until such violation has been fully and finally cured.

(g) Acknowledgements.

(i) The Company Group's customer and business relationships are or will be near permanent and such relationships are significant assets belonging to the Company Group which have been or will be developed through a substantial investment of time, effort, and expense in the Company Group's regional market, and, as a result of your employment with the Company Group, (i) you will have contact with such customers and business partners which you would not otherwise have had and (ii) such customers and business partners will associate the Company Group's goodwill with you.

(ii) The Company Group has developed and will develop a wealth of intimate knowledge regarding its customers and business partners, and the identity of the Company Group's customers and business partners is not generally known in the worldwide community in which the Company Group's businesses are located; and, for these and other reasons, the Company Group has a legitimate, protectable interest in the identity of its customers and business partners and the method of operations of its business.

(iii) Your skills in the area of the Company Group's business will be developed and enhanced as a result of your employment relationship with the Corporation and the Bank.

(iv) The Company Group has a legitimate interest in protecting the goodwill, client and business partner information, client and business partner relationships, and use of your skills by means of enforcement of the restrictive covenants set forth in this Agreement.

(v) YOU REPRESENT AND WARRANT THAT THE KNOWLEDGE, SKILLS AND ABILITIES YOU POSSESSES AT THE DELIVERY DATE ARE SUFFICIENT TO PERMIT YOU, IN THE EVENT OF TERMINATION OF YOUR EMPLOYMENT BY COMPANY GROUP FOR ANY REASON (WHETHER VOLUNTARY OR INVOLUNTARY) OR FOR NO REASON, TO EARN, FOR A PERIOD OF TWENTY-FOUR MONTHS FROM SUCH TERMINATION, A LIVELIHOOD SATISFACTORY TO YOU WITHOUT VIOLATING ANY PROVISION HEREOF, FOR EXAMPLE, BY USING SUCH KNOWLEDGE, SKILLS AND ABILITIES, OR SOME OF THEM, IN THE SERVICE OF NON-CUSTOMERS OR NON-CLIENTS OF THE COMPANY GROUP. YOU ACKNOWLEDGE THAT YOUR COVENANTS CONTAINED IN THIS AGREEMENT ARE GIVEN IN CONSIDERATION OF THE WILLINGNESS OF THE CORPORATION AND THE BANK TO MAKE VALUABLE BENEFITS AVAILABLE TO YOU, INCLUDING, BUT NOT LIMITED TO, (A) YOUR EMPLOYMENT WITH THE CORPORATION AND THE BANK, (B) YOUR SALARY, (C) THE OPPORTUNITY FOR ADDITIONAL BONUS PAYMENTS, (D) VALUABLE OPPORTUNITIES, COMPENSATION AND/OR BENEFITS, (E) THE ACCESS THE CORPORATION AND THE BANK ARE PROVIDING YOU TO CERTAIN TRADE SECRETS, AND CONFIDENTIAL AND PROPRIETARY INFORMATION RELATED TO THE BUSINESS OF THE COMPANY GROUP, (G) THE ACCESS THE CORPORATION AND THE BANK ARE PROVIDING YOU TO ITS CLIENTS, CUSTOMERS, PROSPECTIVE CLIENTS AND OTHER BUSINESS RELATIONSHIPS, (H) AND OTHER GOOD AND VALUABLE CONSIDERATION. YOU FURTHER ACKNOWLEDGE THAT YOUR ABILITY TO EARN A LIVELIHOOD WITHOUT VIOLATING THIS AGREEMENT IS A MATERIAL CONDITION OF THIS AGREEMENT AND YOUR CONTINUED EMPLOYMENT WITH THE CORPORATION AND THE BANK. YOU, THE CORPORATION AND THE BANK ACKNOWLEDGE THAT YOUR RIGHTS HAVE BEEN LIMITED BY THIS AGREEMENT ONLY TO THE EXTENT REASONABLY NECESSARY TO PROTECT THE LEGITIMATE INTERESTS OF THE COMPANY GROUP.

(h) Intellectual Property Disclosure and Cooperation. All developments, including inventions whether patentable or otherwise, trade secrets, discoveries, improvements, original works of authorship, ideas, software, data compilations, processes, forms and trade secrets, which either directly or indirectly relate to or may be useful in the Business (collectively, the “**Developments**”) which you, either by yourself or in conjunction with any other Person or Persons, shall conceive, make, develop or acquire during your employment shall become and remain the sole and exclusive property of the Company Group. You will make full and prompt disclosure to the Bank of every Development. You will assign to the Bank, or its nominee, every Development and execute all assignments or other instruments or documents and do all other things necessary and proper to confirm the Company Group’s right and title in and to every Development, without payment by the Company Group to you of any royalty, license fee or additional compensation.

(i) Prior Inventions. You further represents and warrants that you have submitted to the Bank a list of all developments, including inventions whether patentable or otherwise, trade secrets, discoveries, improvements, original works of authorship, ideas, software, data compilations, processes, forms and trade secrets which were made by you prior to the date hereof (collectively the “**Prior Inventions**”), which belong to you, which relate to the Business, products or research and development, and which are not assigned to the Bank hereunder as of the Delivery Date or, if no such list has been submitted, you represent that there are no such Prior Inventions.

(j) Advise the Bank of New Affiliation or Employment. In the event of a cessation of your employment with the Company Group, and during the Restricted Period, you agree to disclose to the Bank the name and address of any new business affiliation or employer within ten (10) days of your accepting such position. If you fail to notify the Bank of such information, the Restricted Period shall be extended by a period equal to the period of nondisclosure of such employment information.

(k) Survival of Covenants. It is expressly understood and agreed that the covenants and undertakings in this Agreement shall survive the termination of your employment for any reason (voluntarily or involuntarily) or for no reason. The existence of any claim or cause of action that you may have against the Company Group or any other Person, including but not limited to, any claim under this Agreement, shall not constitute a defense or bar to the enforcement of any of the covenants and undertakings contained in this Agreement.

11. Successors and Binding Agreement.

(a) The Corporation and the Bank may require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Corporation or the Bank, by agreement in form and substance satisfactory to the Corporation’s and Bank’s Boards of Directors, to expressly assume and agree to honor this Agreement in the same manner and to the same extent that the Corporation and the Bank would be required to honor it if no such succession had taken place. As used in this Section 11 of this Agreement, “Corporation” and “Bank” shall mean the Corporation and the Bank as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers any agreement provided for in this Section 11 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) This Agreement and all of your rights hereunder shall inure to the benefit of and be enforceable by and against your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. You may not assign this Agreement. Any amounts payable hereunder as a result of your death shall be paid in accordance with the terms of this Agreement to your devisee, legatee, or other designee or if there be no such designee, to your estate.

12. Compliance with Section 409A.

Notwithstanding anything to the contrary in this Agreement, no portion of the benefits or payments to be made under Section 9 that constitute non-qualified deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations and Internal Revenue Service guidance promulgated thereunder (the "Code") will be payable until you have "separation from service" from the Corporation and the Bank within the meaning of Section 409A of the Code. In addition, to the extent compliance with the requirements of Treas. Reg. § 1.409A-3(i)(2) (or any successor provision) is necessary to avoid the application of an additional tax under Section 409A of the Code to payments due to you upon or following your "separation from service", then notwithstanding any other provision of this Agreement (or any otherwise applicable plan, policy, agreement or arrangement), any such payments that are otherwise due within six months following your "separation from service" (taking into account the preceding sentence of this paragraph) will be deferred without interest and paid to you in a lump sum immediately following such six month period. This paragraph should not be construed to prevent the application of Treas. Reg. § 1.409A-1(b)(9)(iii) (or any successor provision) to amounts payable hereunder. For purposes of the application of Section 409A of the Code, each payment in a series of payments will be deemed a separate payment. Further, except to the extent any expense, reimbursement or in-kind benefit provided to you does not constitute a "deferral of compensation" within the meaning of Section 409A of the Code, and its implementing regulations and guidance, (i) the amount of expenses eligible for reimbursement or in-kind benefits provided to you during any calendar year will not affect the amount of expenses eligible for reimbursement or in-kind benefits provided to you in any other calendar year, (ii) the reimbursements for expenses for which you are entitled to be reimbursed shall be made on or before the last day of the calendar year following the calendar year in which the applicable expense is incurred and (iii) the right to payment or reimbursement or in-kind benefits hereunder may not be liquidated or exchanged for any other benefit.

13. Notices.

For the purposes of this Agreement, notices, demands and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered by a nationally recognized overnight courier or (unless otherwise specified) mailed by United States registered mail, return receipt requested postage prepaid, addressed as follows:

If to you: your most recent address set forth in the Corporation's or the Bank's records

If to the Corporation
and the Bank:

Bryn Mawr Bank Corporation
801 Lancaster Avenue
Bryn Mawr, PA 19010-3396
Attention: Corporate Secretary

with a copy to:

Bryn Mawr Bank Corporation
801 Lancaster Avenue
Bryn Mawr, PA 19010-3396
Attention: General Counsel

or to such other address as any party may have furnished to the others in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

14. Representations and Warranties.

The Corporation and the Bank represent and warrant that the execution of this Agreement by the Corporation and the Bank has been duly authorized by resolution of their respective Boards of Directors and that the Corporation and the Bank have the authority to execute and deliver this Agreement and that the Agreement does not conflict with or violate any other agreement or contract by which the Corporation or the Bank is bound. You represent and warrant to the Corporation and the Bank that you are authorized to execute and deliver this Agreement and that this Agreement does not conflict with or violate the provisions of any agreement to which you are bound. You further represent and warrant to the Corporation and the Bank that you have carefully read and considered the provisions of this Agreement and have had an opportunity to consult with independent legal counsel of your choosing prior to executing this Agreement. All parties acknowledge and agree that they are executing this Agreement voluntarily and intending to be legally bound.

15. Choice of Law and Venue.

This Agreement shall be interpreted, enforced and governed under the laws of the Commonwealth of Pennsylvania, without regard to conflict of laws principles that would apply the law of a different jurisdiction. All claims, disputes or causes of action relating to or arising out of this Agreement shall be brought, heard and resolved solely and exclusively by the United States District Court for the Eastern District of Pennsylvania or a state court situated in Montgomery County, Pennsylvania. Each of the parties hereto agrees to submit to the jurisdiction of such courts for all purposes of this Agreement and waives any objection to forum or venue laid therein.

16. Mediation.

Except for claims asserted pursuant to Sections 7 and 10, should a dispute arise between the parties in connection with this Agreement, the parties shall endeavor in good faith to come to an agreement with respect to the dispute. In the event the parties are unable to reach an agreement within thirty (30) days after a notice of dispute is delivered, the parties agree to first submit such dispute to mediation before a mediator acceptable to both parties, who shall promptly conduct mediation. The mediator shall be chosen from the CPR Institute for Dispute Resolution or the American Arbitration Association ("AAA"). In the event the parties cannot agree on an acceptable mediator within forty five (45) days after notice of dispute is delivered, the parties shall submit the matter to AAA for appointment of a qualified mediator by AAA. In the event that the dispute is not resolved within sixty (60) days after the day the parties first meet with a mediator, or in the event that the mediator certifies that further mediation proceedings are fruitless, the parties reserve all rights each may have to bring an action in court for any claims under this Agreement.

17. Enforcement.

The prevailing party in any suit or other legal action in connection with the enforcement of this Agreement shall be entitled, in addition to any other remedy available at law or in equity, to reimbursement of its reasonable costs and expenses (including reasonable attorneys' fees).

18. Third-Party Beneficiaries.

All Company Group members are express third-party beneficiaries of this Agreement.

19. Miscellaneous.

No provisions of this Agreement may be modified, waived or discharged unless such modification, waiver or discharge is agreed to in writing signed by you, the Corporation and the Bank. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement embodies the entire understanding between the parties hereto and supersedes any other prior or contemporaneous, oral or written, representation or agreement by the parties hereto, with respect to the matters which are the subject of this Agreement, and no change, alteration or modification hereof may be made except in writing signed by the parties hereto.

20. Severability.

Except as set forth in Section 10, the invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which shall remain in full force and effect.

21. Pronouns.

All pronouns contained herein and any variations thereof shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the parties hereto may require.

22. Counterparts.

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same Agreement.

23. Captions.

The section and subsection captions in this Agreement are for convenience of reference only and do not define, limit or describe the scope or intent of this Agreement or any part hereof and shall not be considered in any construction hereof.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

BRYN MAWR BANK CORPORATION

By: /s/ Francis J. Leto
Name: Francis J. Leto
Title: Chief Executive Officer

THE BRYN MAWR TRUST COMPANY

By: /s/ Francis J. Leto
Name: Francis J. Leto
Title: President

/s/ Jennifer Dempsey Fox
Jennifer Dempsey Fox

Signature Page to Employment Agreement - Michael W. Harrington

EXHIBIT A

Directorships, Public Service Commitments and Personal Business Interests

[\(Back To Top\)](#)

Section 5: EX-10.46 (EXHIBIT 10.46)

Exhibit 10.46

BRYN MAWR BANK CORPORATION
RESTRICTED STOCK UNIT AGREEMENT FOR
[_____]
SUBJECT TO THE AMENDED AND RESTATED 2010 LONG TERM INCENTIVE PLAN

Grantee: [_____]
Date of Grant: [_____]
Number of RSUs: [_____]
Vesting Dates(s): [_____]

RESTRICTED STOCK UNIT AGREEMENT ("Agreement"), dated as of the Date of Grant set forth above by and between **BRYN MAWR BANK CORPORATION** (the "Corporation") and the Grantee named above (the "Grantee").

1. The Plan. This Agreement is subject to the terms and conditions of the [Amended and Restated Bryn Mawr Bank Corporation 2010 Long Term Incentive Plan (the "Plan") as approved by the Board of Directors of the Corporation on February 27, 2015 and by the Corporation's shareholders on April 30, 2015]. Except as otherwise specified herein, all capitalized terms used in this Agreement shall have the meanings given to them in the Plan. The term "Company Group" as used in this Agreement with reference to employment shall include employment with the Corporation or any of its direct or indirect subsidiaries.

2. Grant of Restricted Stock Units.

a. Subject to the terms and conditions of the Plan and this Agreement, and the Grantee's acceptance of same by execution of this Agreement, the Corporation's Compensation Committee ("Compensation Committee") hereby grants to the Grantee the number of Restricted Stock Units set forth above (the "RSUs").

b. Upon vesting of the RSUs and satisfaction of all of the other terms and conditions in this Agreement, the Corporation will issue stock representing the shares underlying the vested RSUs to be issued to Grantee as soon as practicable.

3. Terms and Conditions. The Grant is subject to the following terms and conditions:

a. Restricted (Vesting) Period. [The RSUs will vest in three installments at the Vesting Dates (as defined below), provided that Grantee has remained continually employed by the Company Group through the applicable Vesting Date, as follows: (a) [_____] of the Time-Based RSUs will vest at [_____] (b) [_____] of the Time-Based RSUs will vest at [_____] and (c) with respect to [_____] of the Time-Based RSUs will vest at [_____] (each of the dates set forth in clauses (a), (b) and (c) is, as to the corresponding portion of the RSUs, a "Vesting Date", and each such period, a "Vesting Period").] OR [Vesting of the RSUs is subject to the completion of continued service by the Grantee from the Date of Grant through [_____] (such date, the "Vesting Date" and such period the "Vesting Period").] The RSUs will vest upon expiration of the Vesting Period, but only if the Grantee remains continuously employed by the Company Group through the end of the Vesting Period or as otherwise provided herein.]

b. No Rights as a Shareholder. Prior to the Vesting Date, Grantee will have none of the rights and privileges of a shareholder with respect to the shares underlying the RSUs, including but not limited to, the right to vote the shares until such RSU's have vested and such shares have been issued.

c. Dividend-Equivalents. At the time of issuance of shares underlying vested RSUs pursuant to subsection 2(b) above, the Company Group shall also pay to Grantee an amount equal to the aggregate amount of all dividends declared and paid by the Company Group based on dividend record dates falling between the Date of Grant and the date of issuance in accordance with the number of shares issued. The dividend-equivalents will be reported to the employee as W-2 wages and, as such, will be subject to statutory withholding requirements for federal, state and local taxes.

4. Forfeiture.

a. Forfeiture. All RSUs that have not vested at the applicable Vesting Date in accordance with subsection 3(a) shall be forfeited in their entirety.

b. Forfeiture of Unvested RSUs and Payment to the Company Group for Issued Shares Resulting from Vested RSUs If Grantee Engages in Certain Activities. The provisions of this subsection 4(b) will apply to all RSUs granted to Grantee under the Plan and to any shares issued to the Grantee upon vesting of RSUs. If, at any time [prior to/during] the [final] Vesting [Date/Period], or for a period of two (2) years after termination of, or leaving Grantee's employment for any reason with the Company Group, Grantee engages in any activity inimical, contrary or harmful to the interests of the Company Group including, but not limited to (A) conduct related to Grantee's employment for which either criminal or civil penalties against Grantee may be brought, (B) violation of the Company Group's policies including, without limitation, the Company Group's Insider Trading Policy, Code of Business Conduct and Ethics, Code of Personal Conduct, Employee Handbook, or otherwise, (C) soliciting of any customer of the Company Group for business which would result in such customer terminating their relationship with the Company Group; soliciting or inducing any individual who is an employee or director of the Company Group to leave the Company Group or otherwise terminate their relationship with the Company Group, (D) disclosing or using any confidential information or material concerning the Company Group, (E) breach of any agreement between the Grantee and the Company Group, or (F) participating in a hostile takeover attempt, then (x) all RSUs that have not vested effective as of the date on which Grantee engages in such activity, unless forfeited sooner by operation of another term or condition of this Agreement or the Plan, shall be forfeited in their entirety, and (y) for any shares underlying vested RSUs which have been issued to Grantee, the Grantee shall pay to the Company Group the market value of the shares on the date of issuance or the date Grantee engages in such activity, whichever is greater. The term "confidential information" as used in this Agreement includes, but is not limited to, records, documents, programs, technical data, information technology, policies, files, lists, client non-public personal information, pricing, costs, strategies, market data, statistics, business partners, customers, customer requirements, prospective customer contacts, knowledge of the Company Group lists, and knowledge of the Company Group's clients, methods of operation, processes, trade secrets, methods of determination of prices, prices or fees, financial condition, profits, sales, net income, and indebtedness, potential mergers and acquisitions, or the sale of Company Group assets or subsidiaries, commercial contracts and relationships, employees, litigation (whether actual or threatened), information acquired in connection with the Grantee's employment with the Company Group, including without limitation, proprietary or confidential information of any third party who may disclose such information to the Company Group or the Grantee in the course of Company Group business, and any other information relating to the Company Group that has not been made available to the general public, as the same may exist from time to time.

c. Right of Setoff. By accepting this Agreement, Grantee consents to the deduction, to the extent permitted by law, from any amounts that the Company Group owes Grantee from time to time (including amounts owed to Grantee as wages or other compensation, fringe benefits, or paid time-off pay, as well as any other amounts owed to Grantee by the Company Group), the amounts Grantee owes the Corporation under subsection 4(b) above. Whether or not the Corporation elects to make any setoff in whole or in part, if the Corporation does not recover by means of setoff the full amount Grantee owes it, calculated as set forth above, Grantee agrees to immediately pay the unpaid balance to the Corporation.

d. Compensation Committee Discretion. Grantee may be released from Grantee's obligations under subsections 4(b) and 4(c) only if the Compensation Committee, or its duly appointed agent, determines in its sole discretion that such action is in the best interest of the Corporation.

5. Death, Disability or Retirement. In the event the Grantee shall cease to be employed by to the Company Group by reason of: (a) normal or late retirement; (b) with the consent of the Compensation Committee, early retirement or a transfer of the Grantee in a spinoff; (c) death; or (d) total and permanent disability as determined by the Compensation Committee ("Disability"), then the vesting requirements on a fraction of Grantee's RSUs will be deemed to have been fulfilled. The vested portion shall be calculated as follows: the number of RSUs granted multiplied by a fraction, the numerator of which is the number of full calendar months that have elapsed in the applicable Vesting Period prior to the death, Disability, Retirement, or transfer in a spinoff of the Grantee and the denominator of which is the total number of full calendar months in the applicable Vesting Period. Any remaining RSUs which have not vested as provided in this section 5 shall be forfeited. The terms of subsection 2(b) shall apply to the RSUs which vest as provided in this section 5.

6. Termination. If the Grantee terminates the Grantee's employment with the Company Group or if the Company Group terminates the Grantee's employment with or without Cause, other than as described in section 5 above, any RSUs that have not yet vested at the date of termination shall automatically be forfeited.

7. Change in Control. In the event of a Change in Control, Grantee's outstanding RSUs will be deemed to have vested and any shares underlying such RSUs not previously issued shall be issued within ten days after the Change in Control. A "Change in Control" shall be deemed to have taken place if (i) any Person (as defined below) other than an entity in the Company Group or , an employee benefit plan of the Company Group (or any Person organized, appointed or established by the Company Group for or pursuant to the terms of any such employee benefit plan), together with all affiliates and associates of such Person, becomes the beneficial owner in the aggregate of 25% or more of the common stock of the Corporation then outstanding, or (ii) during any twenty-four month period, individuals who at the beginning of such period constituted the Board of Directors of the Corporation or The Bryn Mawr Trust Company (the "Bank") cease, for any reason, to constitute a majority thereof, unless the election, or the nomination for election by the Corporation or the Bank's shareholders, as the case may be, of each director who was not a director at the beginning of such period was approved by a vote of at least two-thirds of the directors in office at the time of such election or nomination, who were directors at the beginning of such period. "Person" shall mean any person, firm, corporation, partnership, association, or other entity.

8. Non-Interference and Non-Solicitation.

a. For a period of [_____] months following the date Grantee ceases to be employed by the Company Group for any reason, whether voluntarily or involuntarily (the "Separation Date"), Grantee agrees not to disrupt, damage, impair or interfere with the business of the Company Group in any manner, including without limitation, by: (a) employing, engaging or soliciting any employee of the Company Group; (b) inducing or attempting to influence an employee to leave the employ of the Company Group; (c) adversely influencing or altering the relationship of any person, firm, corporation, partnership, association or other entity ("Person") with the Company Group, whether such Person is an employee, customer, client or otherwise; or (d) directly or indirectly, individually or for any other, calling on, engaging in business with, soliciting, inducing, or attempting to solicit or induce, any Person who has been a customer, client or business referral source of the Company Group, or who has been solicited as a potential customer, client or business referral source of the Company Group, during the two (2) year period preceding the Separation Date to (x) cease doing business in whole or in part with or through the Company Group or (y) do business with any other Person which performs services or offers products materially similar to or competitive with those provided by the Company Group.

b. Grantee shall maintain confidential information (as defined in Section 4(b)) in the strictest of confidence, shall not disclose confidential information to any person outside of the Company Group, and shall not use, reproduce, disseminate, or take any other action with respect to confidential information other than in connection with Grantee's employment and for the benefit of the Company Group. Grantee shall not remove confidential information from Company Group premises unless necessary in connection with the performance of Grantee's job duties, and in such event, such confidential information shall be returned or destroyed immediately upon cessation of Grantee's employment with the Company Group. The obligations of Grantee under this Section 8(b) shall apply during Grantee's employment and following termination of Grantee's employment, and shall survive in perpetuity.

c. Grantee acknowledges and agrees that the restrictions contained in this section 8 are reasonable and necessary in order to protect the legitimate interests of the Company Group and that any violation thereof would result in irreparable injury to the Company Group. Consequently, Grantee acknowledges and agrees that, in the event of any violation thereof, the Company Group shall be authorized and entitled, without the necessity of posting a bond or other form of security, to obtain from any court of competent jurisdiction injunctive and equitable relief, as well as an equitable accounting of all profits and benefits arising out of such violation, which rights and remedies shall be cumulative and in addition to any other rights or remedies to which the Company Group may be entitled at law or in equity (including the rights of forfeiture set forth in section 4 hereof) and, in the event the Company Group is required to enforce the terms of this Agreement through court proceedings, the Company Group shall be entitled to reimbursement of all legal fees, costs and expenses incident to enforcement of any such term, in whole or in part and/or such term as may be modified by a court of competent jurisdiction.

d. If any court of competent jurisdiction construes any of the restrictive covenants set forth in this section 8, or any part thereof, to be unenforceable because of the duration, scope or geographic area covered thereby, such court shall have the power to reduce the duration, scope or geographic area of such provision and, in its reduced form, such provision shall then be enforceable and shall be enforced.

9. Change Adjustments. The Compensation Committee shall make appropriate adjustments to give effect to adjustments made in the number of shares of the Corporation's common stock through a merger, consolidation, recapitalization, reclassification, combination, spinoff, common stock dividend, stock split or other relevant change as the Compensation Committee deems appropriate to prevent dilution or enlargement of the rights of the Grantee. Any adjustments or substitutions pursuant to this section shall meet the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and shall be final and binding upon the Grantee.

10. Compliance with Law and Regulations. The grant of RSUs and the issuance of shares underlying vested RSUs shall be subject to all applicable federal and state laws, the rules and regulations and to such approvals by any government or regulatory agency as may be required. The Corporation shall not be required to register any securities pursuant to the Securities Act of 1933, as amended, or to list such shares under the stock market or exchange on which the common stock of the Corporation may then be listed, or to take any other affirmative action in order to cause the issuance or delivery of shares underlying vested RSUs to comply with any law or regulation of any governmental authority.

11. Notice. Any notice which either party hereto may be required or permitted to give to the other shall be in writing, and may be delivered personally or by mail, postage prepaid, addressed as follows: to the Corporation, Attention: Corporate Secretary, at its office at 801 Lancaster Avenue, Bryn Mawr, PA 19010 or to the Grantee at her/his address on the records of the Corporation or at such other addresses as the Corporation, or Grantee, may designate in writing from time to time to the other party hereto.

12. Employment. Neither the action of the Corporation or its shareholders, nor any action taken by the Compensation Committee under the Plan nor any provisions of this Agreement shall be construed as giving to the Grantee the right to be retained as an employee of the Company Group.

13. Payment of Taxes. Upon issuance of shares underlying the vested RSUs the value of the shares issued, calculated based on the closing price of the Corporation's common stock on the day preceding the applicable Vesting Date, will constitute W-2 wages to the Grantee and, as such, will be subject to statutory federal, state and local withholding taxes. The Corporation will withhold a sufficient number of whole shares in order to satisfy this tax obligation. The remaining shares will be made available to the Grantee as soon as practicable. The value of any fractional shares will be paid to the Grantee through a separate disbursement.

14. Incorporation by Reference. This Restricted Stock Unit Award is granted pursuant and subject to the terms and conditions of the Plan, the provisions of which are incorporated herein by reference. If any provision of this Agreement conflicts with any provision of the Plan in effect on the Date of Grant, the terms of the Plan shall control. This Agreement shall not be modified after the Date of Grant except by written agreement between the Corporation and the Grantee; provided, however, that such modification shall (a) not be inconsistent with the Plan, and (b) be approved by the Committee.

15. Severability. Except as set forth in Section 8, if any one or more of the provisions contained in this Agreement are invalid, illegal or unenforceable, the other provisions of this Agreement will be construed and enforced as if the invalid, illegal or unenforceable provision had never been included.

16. Compliance with Internal Revenue Code Section 409A. It is the intention of the parties that the RSUs and the Agreement comply with the provisions of Section 409A of the Code to the extent, if any, that such provisions are applicable to the Agreement and the Agreement will be administered by the Compensation Committee in a manner consistent with this intent. If any payments or benefits may be subject to taxation under Section 409A of the Code, Grantee agrees that the Compensation Committee may, without the consent of Grantee, modify this Agreement to the extent and in the manner that the Compensation Committee deems necessary or advisable or take any other action or actions, including an amendment or action with retroactive effect that the Compensation Committee determines is necessary or appropriate to exempt any payments or benefits from the application of Section 409A or to provide such payments or benefits in the manner that complies with the provisions of Section 409A such that they will not be taxable thereunder.

17. Choice of Law. The provisions of this Agreement shall be construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to any conflict of law provision that would apply the law of another jurisdiction.

18. Interpretation. The interpretation and construction of any terms or conditions of the Plan or this Agreement by the Compensation Committee shall be final and conclusive.

Signature Page Follows

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed by a duly authorized officer, and the Grantee has hereunto set his/her hand and seal, effective as of the Date of Grant set forth above.

BRYN MAWR BANK CORPORATION

By: _____
Name: _____
Title: _____

(Signature of Grantee)

(Print Name of Grantee)

(Address of Grantee)

[\(Back To Top\)](#)

Section 6: EX-12.1 (EXHIBIT 12.1)

Exhibit 12.1

RATIO OF EARNINGS TO FIXED CHARGES

The consolidated ratios of fixed charges to earnings for each of the years indicated are as follows:

| <i>(dollars in thousands)</i> | For the Twelve Months Ended December 31, | | |
|---|--|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Earnings: | | | |
| Income before income taxes | \$ 57,246 | \$ 54,205 | \$ 25,926 |
| Plus: interest expense | 14,432 | 10,755 | 8,415 |
| Plus: estimate of interest within rental expense ¹ | 1,587 | 1,538 | 1,680 |
| Earnings including interest on deposits | \$ 73,265 | \$ 66,498 | \$ 36,021 |
| Less interest on deposits | 8,748 | 5,833 | 4,212 |
| Earnings excluding interest on deposits | \$ 64,517 | \$ 60,665 | \$ 31,809 |
| Fixed charges (pre-tax): | | | |
| Fixed charges including interest on deposits | \$ 16,019 | \$ 12,293 | \$ 10,095 |
| Less: interest on deposits | 8,748 | 5,833 | 4,212 |
| Fixed charges excluding interest on deposits | \$ 7,271 | \$ 6,460 | \$ 5,883 |
| Ratio of Earnings to Fixed Charges: | | | |
| Excluding interest on deposits | 8.9 | 9.4 | 5.4 |
| Including interest on deposits | 4.6 | 5.4 | 3.6 |

¹ interest expense within rental expense is estimated at 1/3 of rental expense

[\(Back To Top\)](#)

Section 7: EX-21.1 (EXHIBIT 21.1)

Exhibit 21.1

Subsidiaries of the Registrant*

The Bryn Mawr Trust Company

*Excludes subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2017

[\(Back To Top\)](#)

Section 8: EX-23.1 (EXHIBIT 23.1)

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Bryn Mawr Bank Corporation:

We consent to the incorporation by reference in the registration statement (No. 333-204547, No. 333-201642, No. 333-182435, No. 333-168072, No. 333-144280, No. 333-143445, and No. 333-119958) on Form S-8, registration statements, (No. 333-206866, No. 333-196916, No. 333-163874, and No. 333-216995) on Form S-4, and on the registration statements (No. 333-202805 and No. 333-177109) on Forms S-3 of Bryn Mawr Bank Corporation of our report dated March 1, 2018, with respect to the consolidated balance sheets of Bryn Mawr Bank Corporation as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the "consolidated financial statements"), and the effectiveness of internal control over financial reporting as of December 31, 2017, which report appears in the December 31, 2017 annual report on Form 10-K of Bryn Mawr Bank Corporation.

Philadelphia, Pennsylvania
March 1, 2018
([Back To Top](#))

Section 9: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATIONS

I, Francis J. Leto, certify that:

1. I have reviewed this Annual Report on Form 10-K of Bryn Mawr Bank Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report, any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2018

/s/ Francis J. Leto
Francis J. Leto, President and Chief Executive Officer
(Principal Executive Officer)

([Back To Top](#))

Section 10: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATIONS

I, Michael W. Harrington, certify that:

1. I have reviewed this Annual Report on Form 10-K of Bryn Mawr Bank Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report, any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2018

/s/ Michael W. Harrington
Michael W. Harrington, Chief Financial Officer
(Principal Financial Officer)

[\(Back To Top\)](#)

Section 11: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

**Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Bryn Mawr Bank Corporation (the "Corporation") on Form 10-K for the period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Francis J. Leto, President and Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: March 1, 2018

/s/ Francis J. Leto

Francis J. Leto, President and Chief Executive Officer
(Principal Executive Officer)

[\(Back To Top\)](#)

Section 12: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

**Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Bryn Mawr Bank Corporation (the "Corporation") on Form 10-K for the period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael W. Harrington, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: March 1, 2018

/s/ Michael W. Harrington

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

[\(Back To Top\)](#)