

BRYN MAWR BANK CORP
Form 10-Q
August 07, 2007
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15 (d)
of the Securities and Exchange Act of 1934.

For Quarter ended June 30 , 2007

Commission File Number 0-15261

Bryn Mawr Bank Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-2434506
(I.R.S. Employer
identification No.)

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

19010
(Zip Code)

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

Not Applicable

Former name, former address and fiscal year, if changed since last report.

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Indicate by check whether the registrant (1) has filed all reports to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date.

Class	Outstanding at August 1, 2007
Common Stock, par value \$1	8,518,634

Table of Contents

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

FORM 10-Q

QUARTER ENDED June 30, 2007

Index

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

Consolidated Financial Statements

Page 3

Notes to Consolidated Financial Statements

Page 7

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Page 17

ITEM 3. Quantitative and Qualitative Disclosures About Market Risks

Page 35

ITEM 4. Controls and Procedures

Page 35

PART II OTHER INFORMATION

Page 35

ITEM 1. Legal Proceedings

Page 35

ITEM 1A. Risk Factors

Page 35

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

Page 36

ITEM 3. Defaults Upon Senior Securities

Page 36

ITEM 4. Submission of Matters to Vote of Security Holders

Page 36

ITEM 5. Other Information

Page 37

ITEM 6. Exhibits

Page 37

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

(dollars in thousands, except per share data)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Net interest income:				
Interest income and fees:				
Loans and leases	\$ 12,673	\$ 10,616	\$ 24,583	\$ 20,543
Federal funds sold	14	18	48	84
Interest bearing deposits with banks	7	8	14	13
Investment securities	556	456	1,126	803
Total interest income	13,250	11,098	25,771	21,443
Interest expense:				
Savings, NOW, and market rate accounts	977	914	1,974	1,735
Time deposits	1,982	1,584	4,166	2,862
Wholesale deposits	1,132	82	1,554	105
Borrowed funds	645	215	1,187	257
Total interest expense	4,736	2,795	8,881	4,959
Net interest income	8,514	8,303	16,890	16,484
Loan and lease loss provision	240	209	490	363
Net interest income after loan and lease loss provision	8,274	8,094	16,400	16,121
Non-interest income:				
Fees for wealth management services	3,423	3,048	6,710	6,168
Service charges on deposit accounts	356	397	716	776
Loan servicing and other fees	277	282	557	572
Net gain on sale of loans	259	254	539	504
Net gain on sale of OREO	110		110	
Net gain on sale of real estate			1,333	
BOLI income	84		84	
Other operating income	555	594	1,161	1,154
Total non-interest income	5,064	4,575	11,210	9,174
Non-interest expenses:				
Salaries and wages	3,981	3,834	8,029	7,663
Employee benefits	1,057	1,131	2,278	2,449
Occupancy and bank premises	712	642	1,398	1,266
Furniture, fixtures, and equipment	513	476	1,020	958
Advertising	355	273	671	473
Amortization of mortgage servicing rights	77	84	169	170

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Professional fees	470	209	871	506
Other operating expenses	1,588	1,253	2,752	2,262
Total non-interest expenses	8,753	7,902	17,188	15,747
Income before income taxes	4,585	4,767	10,422	9,548
Income taxes	1,494	1,630	3,355	3,275
Net income	\$ 3,091	\$ 3,137	\$ 7,067	\$ 6,273
Basic earnings per share	\$ 0.36	\$ 0.37	\$ 0.83	\$ 0.73
Diluted earnings per share	\$ 0.36	\$ 0.36	\$ 0.81	\$ 0.72
Dividends declared per share	\$ 0.12	\$ 0.11	\$ 0.24	\$ 0.22
Weighted-average basic shares outstanding	8,542,066	8,577,365	8,558,527	8,574,038
Dilutive potential common shares	112,040	113,690	116,727	110,676
Weighted-average dilutive shares outstanding	8,654,106	8,691,055	8,675,254	8,684,714

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

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

	June 30,	December 31,
(dollars in thousands, except per share data)	2007	2006
Assets		
Cash and due from banks	\$ 22,533	\$ 61,473
Interest bearing deposits with banks	520	532
Federal funds sold	2,500	
Total cash and cash equivalents	25,553	62,005
Investment securities available for sale, at fair value (amortized cost of \$45,406 and \$48,632 as of June 30, 2007 and December 31, 2006, respectively)	44,817	48,232
Loans held for sale	6,535	3,726
Portfolio loans and leases	739,660	681,291
Less: Allowance for loan and lease losses	(8,605)	(8,122)
Net portfolio loans and leases	731,055	673,169
Premises and equipment, net	16,625	16,571
Accrued interest receivable	4,154	4,232
Deferred income taxes	3,400	2,946
Mortgage servicing rights	2,812	2,883
Bank Owned Life Insurance (BOLI)	15,084	
Other assets	14,535	12,896
Total assets	\$ 864,570	\$ 826,660
Liabilities		
Deposits:		
Noninterest-bearing demand	\$ 154,238	\$ 198,546
Savings, NOW and market rate accounts	266,610	295,521
Time deposits	186,045	170,446
Wholesale deposits	121,750	49,976
Total deposits	728,643	714,489
Borrowed funds	35,100	15,000
Accrued interest payable	4,095	4,346
Other liabilities	10,475	10,442
Total liabilities	778,313	744,277
Shareholders equity		
Common stock, par value \$1; authorized 25,000,000 shares; issued 11,426,882 and 11,373,182 shares as of June 30, 2007 and December 31, 2006 respectively and outstanding of 8,532,580 and 8,562,209 shares as of June 30, 2007 and December 31, 2006, respectively	11,427	11,373
Paid-in capital in excess of par value	11,564	10,598
Accumulated other comprehensive income, net of taxes	(4,561)	(4,450)

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Retained earnings		97,118	92,106
		115,548	109,627
Less: Common stock in treasury at cost 2,894,302, and 2,810,973 shares as of June 30, 2007 and December 31, 2006 respectively		(29,291)	(27,244)
Total shareholders' equity		86,257	82,383
Total liabilities and shareholders' equity		\$ 864,570	\$ 826,660
Book value per share		\$ 10.11	\$ 9.62

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

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

(dollars in thousands)	Six Months Ended June 30	
	2007	2006
Operating activities:		
Net income	\$ 7,067	\$ 6,273
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Provision for loan and lease losses	490	363
Provision for depreciation and amortization	775	732
Loans originated for resale	(45,073)	(34,532)
Proceeds from loans sold	42,803	31,432
Gain on sale of loans	(539)	(504)
Gain on sale of real estate	(1,333)	
Provision for deferred income taxes (benefit)	(388)	(849)
Change in income tax payable/receivable	528	
Change in accrued interest receivable	78	(258)
Change in accrued interest payable	(251)	793
Change in mortgage servicing rights, net	71	41
Other, net	(2,277)	(3,319)
Net cash provided by operating activities	1,951	172
Investing activities:		
Purchases of investment securities	(421)	(16,306)
Proceeds from maturity of investment securities and mortgage-backed securities pay downs	3,655	
Proceeds from calls of investment securities		3,586
Proceeds from sale of real estate	1,850	
Purchase of Bank Owned Life Insurance (BOLI)	(15,000)	
Net portfolio loan and lease (originations) repayments	(58,377)	(44,453)
Net change in premises and equipment	(1,292)	(634)
Sale of other real estate owned (OREO)	110	25
Net cash used by investing activities	(69,475)	(57,782)
Financing activities:		
Change in demand, NOW, savings and market rate deposit accounts	(73,219)	(44,387)
Change in time deposits	15,599	12,707
Change in wholesale deposits	71,774	29,951
Dividends paid	(2,054)	(1,887)
Change in borrowed funds	20,100	22,700
Purchase of treasury stock	(2,088)	(1,405)
Tax benefit from exercise of stock options	168	191
Proceeds from exercise of stock options	792	1,269
Net cash provided by financing activities	31,072	19,139
Change in cash and cash equivalents	(36,452)	(38,471)
Cash and cash equivalents at beginning of period	62,005	66,642

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Cash and cash equivalents at end of period	\$ 25,553	\$ 28,171
--	-----------	-----------

Supplemental cash flow information:

Cash paid during the year for:

Income taxes paid	\$ 3,184	\$ 3,810
Interest paid	\$ 9,132	\$ 4,166

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

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

(dollars in thousands)	Three Months Ended June 30	
	2007	2006
Net income	\$ 3,091	\$ 3,137
Other comprehensive income:		
Unrealized investment gains (losses) net of tax expense (benefit) \$110 and \$80, respectively	(205)	(149)
Change in unfunded pension liability, net of tax (benefit) expense of (\$26) and \$0, respectively	49	
Total comprehensive income	\$ 2,935	\$ 2,988

(dollars in thousands)	Six Months Ended June 30	
	2007	2006
Net income	\$ 7,067	\$ 6,273
Other comprehensive income:		
Unrealized investment gains (losses) net of tax expense (benefit) \$67 and \$161, respectively	(122)	(300)
Change in unfunded pension liability, net of tax (benefit) expense of (\$6) and \$0, respectively	11	
Total comprehensive income	\$ 6,956	\$ 5,973

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

Table of Contents**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements****June 30, 2007 and 2006****(Unaudited)****1. Basis of Presentation:**

The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of Bryn Mawr Bank Corporation's (the Corporation) Management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and the results of operations for the interim period presented have been included. **These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Corporation's 2006 Annual Report on Form 10-K.** The Corporation's consolidated financial condition and results of operations consist almost entirely of The Bryn Mawr Trust Company's (the Bank) financial condition and results of operations.

Certain prior period amounts have been reclassified to conform to current period presentation.

The results of operations for the three month and six month periods ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year.

Statements of the Financial Accounting Standards Board are noted in these statements by the abbreviation FAS.

2. Earnings Per Common Share:

The Corporation follows the provisions of FAS No. 128, Earnings Per Share (FAS 128). Basic earnings per common share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted earnings per common share takes into account the potential dilution, computed pursuant to the treasury stock method, that could occur if stock options were exercised and converted into common stock. The effects of stock options are excluded from the computation of diluted earnings per share in periods in which the effect would be antidilutive. All weighted average shares, actual shares and per share information in the financial statements have been adjusted retroactively for the effect of stock dividends and splits.

(dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	2007	June 30 2006	2007	June 30 2006
Numerator:				
Net income available to common shareholders	\$ 3,091	\$ 3,137	\$ 7,067	\$ 6,273
Denominator for basic earnings per share - weighted average shares				
outstanding	8,542,066	8,577,365	8,558,527	8,574,038
Effect of dilutive potential common shares	112,040	113,690	116,727	110,676
Denominator for diluted earnings per share - adjusted weighted average				
shares outstanding	8,654,106	8,691,055	8,675,254	8,684,714
Basic earnings per share	\$ 0.36	\$ 0.37	\$ 0.83	\$ 0.73
Diluted earnings per share	\$ 0.36	\$ 0.36	\$ 0.81	\$ 0.72
Antidilutive shares excluded from computation of average dilutive earnings per share	10,000	2,250	9,227	2,587

3. Allowance for Loan and Lease Losses

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

The allowance for loan and lease losses is established through a provision for loan and lease losses charged as an expense. Loans are charged against the allowance for loan and lease losses when Management believes that such amounts are uncollectible. The allowance for loan and lease losses is maintained at a level that Management believes is sufficient to absorb estimated probable credit losses. Note 1, Summary of Significant Accounting Policies - Allowance for Loan and Lease Losses, included in the Corporation's 2006 Annual Report on Form 10K contains additional information relative to Management's determination of the adequacy of the allowance for loan and lease losses.

Table of Contents**4. Stock Based Compensation**

The Corporation adopted FAS No. 123R Share-Based Payments (FAS 123R) effective January 1, 2006. FAS 123R establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock based compensation cost is measured at the grant date, based on the fair value of the award and is recognized as an expense over the vesting period.

The Corporation previously applied Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations and provided the required pro forma disclosures of FAS No. 123, Accounting for Stock-Based Compensation (FAS 123).

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

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

The Corporation's stock-based compensation expense for the six months ended June 30, 2007 and 2006 was \$16 thousand and \$55 thousand, respectively. This expense had no material impact on earnings or diluted earnings per share in either period.

On April 25, 2007 the Shareholders approved the Corporation's 2007 Long-Term Incentive Plan (LTIP). The purpose of the LTIP is to promote the success and enhance the value of the Corporation by providing long term incentives to directors and employees of the Corporation. The LTIP is further intended to provide flexibility to the Corporation by increasing its ability to motivate, attract and retain employees and directors upon whose judgment, interest and special efforts enhance the Corporation's successful operations. The Corporation's LTIP permits the issuance of stock options, dividend equivalents, performance awards, stock appreciation rights, restricted stock and/or restricted stock units to employees and directors of the Corporation. A total of 428,996 shares of the Corporation's common stock were made available by the Board of Directors in April, 2007 for grants of awards under the LTIP. As of June 30, 2007 there were 428,996 available for future grant.

The Corporation's Stock Option Plan (SOP) permits the issuance of options to key employees and Directors to purchase shares of the Corporation's common stock. A total of 431,143 shares were authorized in 2004 by the Board of Directors. As of June 30, 2007 there are 10,189 shares available for future grant. The option price is set at the closing price for the stock on the day preceeding issuance of grants as determined by the Corporation's Board of Directors. Options granted may either be incentive stock options within the meaning of the Internal Revenue Code, or non-qualified options. The stock options are exercisable over a period determined by the Board of Directors; however, the option period will not be longer than ten years from the date of the grant. The vesting period of option grants issued is also determined by the Corporation's Board of Directors. During 2007 all grants were issued with a three-year vesting period. The Corporation's practice is to issue option related shares from authorized but unissued shares.

The following table provides information about options outstanding for the three-months ended June 30, 2007:

		Weighted	Weighted
		Average	Average Grant
	Shares	Exercise Price	Date Fair Value
Options outstanding March 31, 2007	747,650	\$ 17.88	\$ 3.88
Granted			
Forfeited			
Expired			
Exercised	7,450	15.43	3.14
Options outstanding June 30, 2007	740,200	\$ 17.90	\$ 3.89

Table of Contents

The following table provides information about unvested options for the three-months ended June 30, 2007:

		Weighted	Weighted
		Average	Average Grant
	Shares	Exercise Price	Date Fair Value
Unvested options March 31, 2007	15,375	\$ 23.12	\$ 6.54
Granted			
Vested	1,208	21.83	5.90
Forfeited			
Unvested options June 30, 2007	14,167	\$ 23.23	\$ 6.60

The following table provides information about options outstanding for the six months ended June 30, 2007:

		Weighted	Weighted
		Average	Average Grant
	Shares	Exercise Price	Date Fair Value
Options outstanding December 31, 2006	789,900	\$ 17.66	\$ 3.81
Granted	4,000	23.77	6.82
Forfeited			
Expired			
Exercised	(53,700)	14.75	3.04
Options outstanding June 30, 2007	740,200	\$ 17.90	\$ 3.89

The following table provides information about unvested options for the six-months ended June 30, 2007:

		Weighted	Weighted
		Average	Average Grant
	Shares	Exercise Price	Date Fair Value
Unvested options December 31, 2006	11,375	\$ 22.89	\$ 6.44
Granted	4,000	23.77	6.82
Vested	(1,208)	21.83	5.90
Forfeited			
Unvested options June 30, 2007	14,167	\$ 23.23	\$ 6.60

The total not-yet-recognized compensation expense of unvested stock options is \$ 80,000. This expense will be recognized over a weighted average period of 28 months.

Proceeds, related tax benefits realized from options exercised and intrinsic value of options exercised during the six months ended June 30, 2007 and 2006 were as follows:

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

	2007	2006
Proceeds from strike price of value of options exercised	\$ 792,000	\$ 1,216,000
Related tax benefit recognized	168,000	191,000
Proceeds of options exercised	\$ 960,000	\$ 1,407,000
Intrinsic value of options exercised	\$ 481,000	\$ 546,000

The following table provides information about options outstanding and exercisable options at June 30, 2007:

	Outstanding	Exercisable
Number	740,200	726,033
Weighted average exercise price	\$ 17.90	\$ 17.80
Aggregate intrinsic value	\$ 3,333,841	\$ 3,332,477
Weighted average contractual term (in years)	6.1	6.0

Table of Contents

For the six months ended June 30, 2007 the fair value of options granted was determined at the date of grant using the Black-Scholes Option Pricing Model and the following assumptions:

Expected average risk-free interest rate	5%
Expected average life (in years)	7
Expected volatility	23.90%
Expected dividend yield	2.02%

5. Pension and Other Post-Retirement Benefit Plans

The Corporation sponsors two pension plans; the qualified defined benefit pension plan (QDBP) and the non-qualified defined benefit pension plan (SERP). In addition, the Corporation also sponsors a post-retirement benefit plan (PRBP).

The following table provides a reconciliation of the components of the net periodic benefits cost for the three months ended June 30, 2007 and 2006:

	For Three months Ended June 30					
	Non-Qualified Defined Benefit Pension Plan		Qualified Defined Benefit Pension Plan		Post- Retirement Benefit Plan	
	2007	2006	2007	2006	2007	2006
Service cost	\$ 20	\$ 9	\$ 326	\$ 314	\$ (1)	\$ 3
Interest cost	29	25	451	409	10	35
Expected return on plan assets			(699)	(557)		
Amortization of transition obligation					6	6
Amortization of prior service costs	11	12	16	20	(34)	(34)
Amortization of net (gain) loss	12		128	141	(5)	51
Net periodic benefit cost	\$ 72	\$ 46	\$ 222	\$ 327	\$ (24)	\$ 61

The following table provides a reconciliation of the components of the net periodic benefits cost for the six months ended June 30, 2007 and 2006:

	For Six months Ended June 30					
	Non-Qualified Defined Benefit Pension Plan		Qualified Defined Benefit Pension Plan		Post- Retirement Benefit Plan	
	2007	2006	2007	2006	2007	2006
Service cost	\$ 30	\$ 18	\$ 626	\$ 628	\$ 2	\$ 6
Interest cost	57	50	876	818	38	70
Expected return on plan assets			(1,274)	(1,114)		
Amortization of transition obligation					13	12
Amortization of prior service costs	22	24	41	40	(69)	(68)
Amortization of net (gain) loss	13		228	282	29	102
Net periodic benefit cost	\$ 122	\$ 92	\$ 497	\$ 654	\$ 13	\$ 122

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

As stated in the Corporation's 2006 Annual Report, the Corporation does not have any minimum funding requirement for its QDBP for 2007. The Corporation contributed \$65 thousand during the first six months of 2007 and is expected to contribute approximately \$130 thousand to the SERP plan for 2007. Additionally, the Corporation contributed \$91 thousand to the PRBP during the first six months of 2007 and expects to contribute an additional \$108 thousand in 2007. As of June 30, 2007 no contributions have been made to QDBP for 2007.

Effective May 31, 2007 certain post-retirement benefits were curtailed and will be paid out in a lump-sum distribution to the individual plan participants by the end of the first quarter of 2008.

Table of Contents**6. Segment Information**

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

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

(Dollars in thousands)	Wealth		2007 Mortgage	All	Consolidated
	Banking	Management	Banking	Other	
Net interest income	\$ 8,496		\$ 16	\$ 2	\$ 8,514
Less: Loan loss provision	240				240
Net interest income after loan and lease loss provision	8,256		16	2	8,274
Other income:					
Fees for wealth management services		3,423			3,423
Service charges on deposit accounts	356				356
Loan servicing and other fees	14		263		277
Net gain on sale of loans			258	1	259
Net gain on sale of real estate					
Other income	568		136	45	749
Total other income	938	3,423	657	46	5,064
Other expenses:					
Salaries and wages	2,646	1,082	189	64	3,981
Employee benefits	804	211	31	11	1,057
Occupancy and bank premises	1,086	140	39	(40)	1,225
Other operating expense	2,173	252	151	(86)	2,490
Total other expense	6,709	1,685	410	(51)	8,753
Segment profit before income taxes	2,485	1,738	263	99	4,585
Intersegment pretax revenues (expenses)*	194	45	10	(249)	
Segment pretax profit (loss)	\$ 2,679	\$ 1,783	\$ 273	\$ (150)	\$ 4,585
% of segment pretax profit (loss)	58.4%	38.9%	6.0%	(3.3%)	100%

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

Table of Contents

Segment information for the quarter ended June 30, 2006 is as follows:

(Dollars in thousands)	Wealth		2006	All	Consolidated
	Banking	Management	Mortgage	Other	
Net interest income	\$ 8,268	\$	\$ 33	\$ 2	\$ 8,303
Less: Loan loss provision	209				209
Net interest income after loan loss provision	8,059		33	2	8,094
Other income:					
Fees for wealth management services		3,048			3,048
Service charges on deposit accounts	397				397
Loan servicing and other fees	29		253		282
Net gain on sale of loans			254		254
Net gain on sale of real estate					
Other operating income	426		94	74	594
Total other income	852	3,048	601	74	4,575
Other expenses:					
Salaries and wages	2,581	1,028	162	63	3,834
Employee benefits	878	212	30	11	1,131
Occupancy and bank premises	958	149	41	(30)	1,118
Other operating expense	1,454	256	158	(49)	1,819
Total other expense	5,871	1,645	391	(5)	7,902
Segment profit before income taxes	3,040	1,403	243	81	4,767
Intersegment pretax revenues (expenses)*	382	45		(427)	
Segment pretax profit (loss)	\$ 3,422	\$ 1,448	\$ 243	\$ (346)	\$ 4,767
% of segment pretax profit (loss)	71.8%	30.4%	5.0%	(7.2%)	100.0%

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

Table of Contents

Segment information for the six months ended June 30, 2007 is as follows:

(Dollars in thousands)	Wealth		2007 Mortgage	All	Consolidated
	Banking	Management	Banking	Other	
Net interest income	\$ 16,834	\$	\$ 52	\$ 4	\$ 16,890
Less: Loan loss provision	490				490
Net interest income after loan and lease loss provision	16,344		52	4	16,400
Other income:					
Fees for wealth management services		6,710			6,710
Service charges on deposit accounts	716				716
Loan servicing and other fees	39		518		557
Net gain on sale of loans			538	1	539
Net gain on sale of real estate	1,333				1,333
Other income	1,097		168	90	1,355
Total other income	3,185	6,710	1,224	91	11,210
Other expenses:					
Salaries and wages	5,327	2,207	371	124	8,029
Employee benefits	1,775	420	61	22	2,278
Occupancy and bank premises	2,143	277	77	(79)	2,418
Other operating expense	3,689	520	312	(58)	4,463
Total other expense	12,934	3,424	821	9	17,188
Segment profit before income taxes	6,595	3,286	455	86	10,422
Intersegment pretax revenues (expenses) *	319	90	20	(429)	
Segment pretax profit (loss)	\$ 6,914	\$ 3,376	\$ 475	\$ (343)	\$ 10,422
% of segment pretax profit (loss)	66.3%	32.4%	4.6%	(3.3%)	100%

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

Table of Contents

Segment information for the six months ended June 30, 2006 is as follows:

(Dollars in thousands)	Wealth		2006 Mortgage	All	Consolidated
	Banking	Management	Banking	Other	
Net interest income	\$ 16,419	\$	\$ 53	\$ 12	\$ 16,484
Less: Loan loss provision	363				363
Net interest income after loan loss provision	16,056		53	12	16,121
Other income:					
Fees for wealth management services		6,168			6,168
Service charges on deposit accounts	776				776
Loan servicing and other fees	20		552		572
Net gain on sale of loans			504		504
Net gain on sale of real estate					
Other operating income	906		109	139	1,154
Total other income	1,702	6,168	1,165	139	9,174
Other expenses:					
Salaries and wages	5,109	2,091	309	154	7,663
Employee benefits	1,939	427	59	24	2,449
Occupancy and bank premises	1,887	308	90	(61)	2,224
Other operating expense	2,751	513	311	(164)	3,411
Total other expense	11,686	3,339	769	(47)	15,747
Segment profit (loss) before income taxes	6,072	2,829	449	198	9,548
Intersegment pretax revenues (expenses) *	362	90		(452)	
Segment pretax profit (loss)	\$ 6,434	\$ 2,919	\$ 449	\$ (254)	\$ 9,548
% of segment pretax profit (loss)	67.4%	30.6%	4.7%	(2.7%)	100.0%

* Intersegment revenues consist of rental payments, insurance commissions and a management fee. Other segment information at June 30, 2007 and 2006 is as follows:

(dollars in millions)	2007	2006
Wealth Management Segment:		
Wealth Assets Under Management and Administration	\$ 2,632.3	\$ 2,195.3
Mortgage Banking Segment:		
Mortgage Loans Serviced for Others	\$ 367.1	\$ 395.1
Mortgage Servicing Rights	\$ 2.8	\$ 3.0

Banking Segment: Substantially all of the assets of the Corporation and its subsidiaries are related to the Banking Segment and are reflected on the consolidated balance sheet in these financial statements.

Table of Contents**7. Mortgage Servicing Rights**

The following summarizes the Corporation's activity related to mortgage servicing rights (MSRs) for the six months ended June 30, 2007 and 2006:

(dollars in thousands)	2007	2006
Balance, January 1	\$ 2,883	\$ 2,982
Additions	98	129
Amortization	(169)	(170)
Impairment		
Balance, June 30	\$ 2,812	\$ 2,941
 Fair Value	 \$ 4,275	 \$ 4,796

There was no temporary impairment on MSRs for the six months ended June 30, 2007 or for the six months ended June 30, 2006.

At June 30, 2007, key economic assumptions and the sensitivity of the current fair value of MSRs to immediate 10 and 20 percent adverse changes in those assumptions are as follows:

(dollars in thousands)	June 30, 2007
Fair value amount of MSRs	\$ 4,275
Weighted average life (in years)	7.2
Prepayment speeds (constant prepayment rate)*:	10.7
Impact on fair value:	
10% adverse change	\$ (148)
20% adverse change	\$ (300)
Discount rate:	10.00%
Impact on fair value:	
10% adverse change	\$ (113)
20% adverse change	\$ (227)

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

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

8. Impaired Loans and Leases

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

(dollars in thousands)	For The Six Months Ended June 30, 2006	For The Twelve Months Ended December 31, 2006
------------------------	---	---

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

	2007		
Period end balance	\$ 570	\$ 866	\$ 704
Average period to date balance	421	803	801
Loans and leases with specific loss allowances			
Charge offs and recoveries			115
Loss allowances reserved			
Period to date income recognized	\$ 27	\$ 22	\$ 39

Table of Contents

9. Capital

The Corporation declared and paid a regular dividend of \$0.12 per share, during the second quarter of 2007. This payment totaled \$1.025 million.

During the first six months of 2007, the Corporation repurchased 87,457 shares of its common stock for \$2.088 million at an average purchase price of \$23.87 per share.

10. New Accounting Pronouncements

FIN 48

The Corporation adopted the provisions of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) on January 1, 2007. As required by FIN 48, which clarifies FAS 109, *Accounting for Income Taxes*, the Corporation 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. At the adoption date, the Corporation applied these criteria to all tax positions for which the statute of limitations remained open. There were no adjustments to retained earnings for unrecognized tax benefits as a result of the implementation of FIN 48.

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 2003.

The Corporation's policy is to record interest and penalties on uncertain tax positions as income tax expense. At June 30, 2007, the Corporation has no amounts recorded for uncertain tax positions, interest or penalties in the accompanying consolidated financial statements.

FAS 155

In February 2006, the FASB issued FAS No. 155 *Accounting for Certain Hybrid Financial Instruments* (FAS 155). Among other things, this Statement permits fair value re-measurement for certain hybrid financial instruments and requires that entities evaluate whether beneficial interests contain embedded derivatives or are derivatives in their entirety.

This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Corporation adopted FAS 155 effective January 1, 2007. The Corporation has determined that the adoption of FAS 155 did not have a material impact on its consolidated financial statements during the first six months of 2007.

FAS 156

In March 2006, the FASB issued FAS No. 156, *Accounting for Servicing of Financial Assets* (FAS 156). FAS 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset. FAS 156 also requires fair value measurement of a servicing asset or liability upon initial recognition and permits different methods to subsequently measure each class of separately recognized servicing assets and servicing liabilities. This Statement additionally permits under certain circumstances a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115.

This Statement becomes effective at the beginning of an entity's first fiscal year that begins after September 15, 2006. The Corporation adopted FAS 156 effective January 1, 2007. The Corporation has determined that the adoption of FAS 156 did not have a material impact on its consolidated financial statements during the first six months of 2007.

FAS 157

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

Table of Contents

FAS 157 is effective for fair-value measures already required or permitted by other standards for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Corporation did not early adopt FAS 157 and has not yet determined whether this Statement will have a material impact on its consolidated financial statements upon adoption.

FAS 159

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

FAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption was available subject to certain conditions. The Corporation did not early adopt FAS 159, and has not yet determined whether this statement will have a material impact on its consolidated financial statements upon adoption.

11. Significant Customer Disclosure

On May 1, 2007 a significant Wealth Division customer announced its intention to be acquired by another financial institution in a business combination. The acquiring financial institution provides wealth management services similar to that of the Corporation's Wealth Management Division. The press release announcing this transaction anticipates completion during the fourth quarter of 2007. The Wealth Management revenues related to this institutional client for the first six months of 2007 and 2006 were approximately \$359 thousand and \$202 thousand, respectively. The Wealth Management assets under management as of June 30, 2007 relating to this client were approximately \$420 million, an increase of \$154 million from June 30, 2006 assets of \$266 million.

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

Special Cautionary Notice Regarding Forward Looking Statements Certain of the statements contained in this Report and the documents incorporated by reference herein, may constitute forward-looking statements for the purposes of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended, and may involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of 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, impairment of goodwill, the effect of changes in accounting standards, and market and pricing trends. The words *expect, anticipate, intended, plan, believe, seek, estimate,* 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 statement due to a variety of factors, including without limitation:

the effect of future economic conditions on the Corporation and its customers, including economic factors which affect consumer confidence in the securities markets, wealth creation, investment and savings patterns, and the Corporation's interest rate risk exposure and credit risk;

changes in the securities markets with respect to the market values of financial assets and the stability of particular securities markets;

governmental monetary and fiscal policies, as well as legislation and regulatory changes;

changes in accounting requirements or interpretations;

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

changes in laws, regulatory guidance or legislation in income and non-income taxes;

the risks of changes in interest rates on the level and composition of deposits, loan demand, and the value of loan collateral and securities, as well as interest rate risk;

the effects of competition from 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 the Corporation's trade market area 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;

any extraordinary event;

Table of Contents

the Corporation's success in continuing to generate new business in its existing markets, as well as its success in identifying and penetrating targeted markets and generating a profit in those markets in a reasonable time;

the Corporation's 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;

the Corporation's timely development of competitive new products and services in a changing environment and the acceptance of such products and services by customers;

the Corporation's ability to originate and sell residential mortgage loans;

the accuracy of assumptions underlying the establishment of reserves for loan and lease losses and estimates in the value of collateral, and various financial assets and liabilities;

technological changes being more difficult or expensive than anticipated; and

the Corporation's 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 use of the foregoing cautionary statements. All forward-looking statements included in this Report are based upon information presently available, and the Corporation assumes no obligation to update any forward-looking statement.

Brief History of the Corporation

The Bryn Mawr Trust Company (the "Bank") received its Pennsylvania banking charter in 1889 and is a member of the Federal Reserve System. In 1986, Bryn Mawr Bank Corporation (the "Corporation") was formed and on January 2, 1987, the Bank became a wholly-owned subsidiary of the Corporation. The Bank and Corporation are headquartered in Bryn Mawr, PA, a western suburb of Philadelphia, PA. The Corporation and its subsidiaries provide wealth management, community banking, residential mortgage lending, insurance, leasing and business banking services to its customers through eight full service branches and seven retirement community offices throughout Montgomery, Delaware and Chester counties. The Corporation trades on the NASDAQ Global Market ("NASDAQ") under the symbol BMTC.

The goal of the Corporation is to become the preeminent community bank and wealth management organization in the Philadelphia area.

The Corporation competes in a highly competitive market area and includes local, national and regional banks as competitors along with savings banks, credit unions, insurance companies, trust companies, registered investment advisors and mutual fund families. The Corporation and its subsidiaries are regulated by many regulatory agencies including the Securities and Exchange Committee ("SEC"), NASD, Federal Deposit Insurance Corporation ("FDIC"), the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking.

Results of Operations

The following is Management's discussion and analysis of the significant changes in the results of operations, capital resources and liquidity presented in its accompanying consolidated financial statements for the Corporation. The Corporation's consolidated financial condition and results of operations consist almost entirely of the Bank's financial condition and results of operations. Current performance does not guarantee, and may not be indicative of, similar performance in the future. These interim financial statements are unaudited.

Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Corporation and its subsidiaries conform with accounting principles generally accepted in the United States of America (US GAAP) applicable to the financial services industry. All significant inter-company transactions are eliminated in

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

consolidation and certain reclassifications are made when necessary to conform the previous year's financial statements to the current year's presentation. In preparing the consolidated financial statements, Management is required to make estimates and assumptions that affect the reported amount of assets and liabilities as of the dates of the balance sheets and revenues and expenditures for the periods presented. Therefore, actual results could differ from these estimates.

The allowance for loan and lease losses involves a higher degree of judgment and complexity than other significant accounting policies. The allowance for loan and lease losses is calculated with the objective of maintaining a reserve level believed by Management to be sufficient to absorb estimated probable credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan and lease portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, expected commitment usage, the amounts and timing of expected future cash flows on impaired loans and

Table of Contents

leases, value of collateral, estimated losses on consumer loans and residential mortgages and general amounts for historical loss experience. The process also considers economic conditions, international events, and inherent risks in the loan and lease portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from Management estimates, additional provisions for loan and lease losses may be required that would adversely impact earnings in future periods.

Other significant accounting policies are presented in Note 1 to the Corporation's audited consolidated financial statements filed as part of the 2006 Annual Report on Form 10-K. There have been no material changes in assumptions or estimation techniques utilized as compared to prior periods.

Executive Overview

The Corporation reported second quarter 2007 diluted earnings per share of \$0.36, unchanged from the same period of 2006. Net income for the second quarter of 2007 was \$3.091 million, a decrease of 1.5% or \$46,000 compared to \$3.137 million in last year's second quarter. Return on average equity (ROE) and return on average assets (ROA) for the quarter ended June 30, 2007, were 14.61% and 1.49% respectively. ROE was 15.70% and ROA was 1.74% for the same period last year. Additional costs associated with new business initiatives, along with continued pressure on the Corporation's net interest margin, contributed to the year over year flat earnings. These initiatives are described below.

Second quarter results are in line with Corporation's expectations given the continued pressure on interest margins coupled with the competitive environment for growing core deposits. Anticipating a large one-time gain on the sale of real estate during the first quarter of 2007, new business initiatives were instituted in the latter part of 2006 continuing through 2007. These initiatives are expected to be dilutive to earnings in 2007 and accretive in 2008.

These initiatives include the September 2006 formation of an equipment leasing company and the Fall 2006 start-up of a loan production office in West Chester. The 2007 initiatives include the grand opening of the Corporation's new Ardmore branch, the roll-out of the Private Banking Group and investments in additional personnel, product offerings and service enhancements in the Wealth Division with the goal of stronger future revenue growth. The Corporation is also evaluating opportunities to establish a Wealth Management presence in the State of Delaware which would expand our product and service offerings as allowed by Delaware law.

Most recently, the Corporation augmented the mortgage operation with the formation of BMT Mortgage Group whose focus will be on residential mortgage originations in Chester County. BMT Mortgage Group was established with the hiring of five mortgage professionals from a regional mortgage operation. This team has deep connections in Chester County, and our entrepreneurial business model gives them a stake in their success under The Bryn Mawr Trust Company.

The second quarter 2007 results reflect the continued unfavorable interest rate environment as tax equivalent net interest income grew a nominal \$216,000 or 2.6% to \$8.605 million from \$8.389 million in the second quarter of 2006 and \$130,000 or 1.5% from \$8.475 million in the first quarter of 2007. The increase in net interest income (on a tax equivalent basis) in the second quarter of 2007 compared to the same period last year was the result of a \$100.9 million increase or 15.1% increase in average interest earning assets, partially offset by a 55 basis point decrease in the Corporation's tax equivalent net interest margin to 4.49% from 5.04%. The increase in tax equivalent net interest income in the second quarter of 2007 compared to the first quarter of 2007 was the result of a \$29.5 million increase or 4.0% increase in average interest earning assets, partially offset by a 16 basis point decrease in the Corporation's tax equivalent net interest margin to 4.49% from 4.65%.

The Corporation's increase in average earning assets in the second quarter of 2007 compared with the second quarter of 2006 (almost 100% of which is attributed to loans and leases) includes leases with yields of approximately 11.0% and commercial and construction related loans with yields of approximately 7.0%. At the same time, core deposit growth over the past six months has been nominal with most of the incremental funding coming from higher cost wholesale sources. It is anticipated that wholesale funding will continue to be used as a source to fund the expected growth in the Corporation's loan outstandings. The Corporation expects the decline in the tax equivalent net interest margin to continue throughout 2007, although at a slower rate than experienced in this year's second quarter.

The Corporation reported six month 2007 diluted earnings per share of \$0.81, an increase of \$0.09 or 12.5% compared to \$0.72 in the same period of 2006. Net income for the six month period ended June 30, 2007 was \$7.067 million, an increase of 12.7% or \$794,000, compared to \$6.273 million in last year's first six months. The primary factor contributing to the increase in earnings for the six months of 2007 compared to the same period last year was a \$0.10 per share or an \$866,000 after tax gain on the sale of real estate that previously served as the Bank's Wynnewood branch location. Excluding the real

Table of Contents

estate gain, year to date 2007 diluted earnings per share of \$0.71 per share were one cent per share lower than the same period last year and net income of \$6.201 million was \$72,000 or 1.1% less than the prior year amount of \$6.273 million.

Return on average equity (ROE) and return on average assets (ROA) for the six months ended June 30, 2007 were 16.95% (14.87% excluding the real estate gain) and 1.76% (1.54% excluding the real estate gain), respectively. ROE was 15.98% and ROA was 1.79% for the same period last year. The tax equivalent net interest margin for the first six months of 2007 was 4.57% compared with 5.13% in the same period last year.

Total portfolio loans and leases at June 30, 2007 were \$739.7 million, an increase of \$100.1 million or 15.6% from \$639.6 million at June 30, 2006 and an increase of \$58.4 million or 8.6% from year end balances of \$681.3 million. Leases at June 30, 2007 of \$28.9 million were 3.9% of total portfolio loans and leases and are presently growing by over \$4 million per month. Credit quality on the entire loan and lease portfolio continues to be very strong as nonperforming loans and leases of \$695,000 represents less than 0.1% of total loans and leases. The Corporation expects lease charge-offs to increase as the lease portfolio matures and grows over the next two years. However, lease charge-offs are expected to be below industry norms as the leasing unit has an experienced underwriting team, the lease portfolio is geographically diverse, and the average lease is less than \$20,000. At June 30, 2007, the allowance for loan and lease losses of \$8.605 million represents 1.16% of portfolio loans and leases compared with 1.19% at December 31, 2006.

Funding from wholesale sources at June 30, 2007 included \$121.8 million in wholesale certificates of deposit and approximately \$35.1 million in Federal Home Loan Bank (FHLB) borrowings. This compares with \$50.0 million and \$15.0 million in wholesale certificates and FHLB borrowings, respectively at December 31, 2006.

On a sequential basis, diluted earnings per share for the second quarter of 2007 of \$0.36 were unchanged from the first quarter of 2007 (excluding the real estate gain of \$0.10 per share in the first quarter). Net income for the second quarter of 2007 of \$3.091 million was \$19,000 or 0.6% lower than first quarter 2007 net income of \$3.110 million (excluding the real estate gain of \$866,000). The small increases in net interest income and non-interest income were offset by an increase in non-interest expenses and a slightly higher effective tax rate.

In addition to the overview of earnings included above, there are detailed discussions of net interest margin, net interest income, non-interest revenues and non-interest expenses elsewhere in this document.

On July 26, 2007, the Corporation's Board of Directors increased the quarterly dividend \$0.01 per share or 8.33% from \$0.12 to \$0.13 per share, payable September 1, 2007 to shareholders of record as of August 6, 2007.

Key Performance Ratios

Key financial performance ratios for the three and six months ended June 30, 2007 and 2006 are shown in the table below:

	Three Months Ended June 30		Six Months Ended June 30		
	2007	2006	2007*	2007	2006
Return on Average Equity ROE)	14.61%	15.70%	14.87%	16.95%	15.98%
Return on Average Assets (ROA)	1.49%	1.74%	1.54%	1.76%	1.79%
Efficiency Ratio	64.46%	61.36%	64.21%	61.17%	61.37%
Net Interest Margin (TE)	4.49%	5.04%	4.57%	4.57%	5.13%
Diluted Earnings Per share	\$ 0.36	\$ 0.36	\$ 0.71	\$ 0.81	\$ 0.72
Dividend Per Share	\$ 0.12	\$ 0.11	\$ 0.24	\$ 0.24	\$ 0.22

* The ratios are also presented for the six months ended June 30, 2007 excluding the gain on sale of real estate.

	June 30	December 31	June 30
	2007	2006	2006
Book Value Per Share	\$ 10.11	\$ 9.62	\$ 9.52
Allowance for loan and lease losses as a Percentage of Loans	1.16%	1.19%	1.22%

Table of Contents**Reconciliation of Non-GAAP Information for the three months and six months ended June 30, 2007**

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

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

(dollars in thousands, except per share data)

Three Months Ended March 31, 2007:	Net Income		Change		Income		Change	
	2007	2006	Dollars	Percentage	2007	2006	Dollars	Percentage
	As reported (GAAP)	\$ 3,976	\$ 3,136	\$ 840	26.8%	\$ 6,146	\$ 4,599	\$ 1,547
Non-GAAP adjustment ¹	(866)		(866)	(27.6%)	(1,333)		(1,333)	(29.0%)
Adjusted (Non-GAAP)	\$ 3,110	\$ 3,136	\$ (26)	(0.8%)	\$ 4,813	\$ 4,599	\$ 214	4.7%

Three Months Ended March 31, 2007:	Diluted Earnings Per Share		Return on Equity		Return on Assets		Efficiency Ratio	
	2007	2006	2007	2006	2007	2006	2007	2006
	As reported (GAAP)	\$ 0.46	\$ 0.36	19.36%	16.27%	2.03%	1.83%	58.08%
Non-GAAP adjustment ¹	(0.10)		(4.21%)	0.00%	(.44%)	0.00%	5.88%	0.00%
Adjusted (Non-GAAP)	\$ 0.36	\$ 0.36	15.15%	16.27%	1.59%	1.83%	63.96%	61.39%

Six Months Ended June 30, 2007:	Net Income		Change		Income		Change	
	2007	2006	Dollars	Percentage	2007	2006	Dollars	Percentage
	As reported (GAAP)	\$ 7,067	\$ 6,273	\$ 794	12.7%	\$ 11,210	\$ 9,174	\$ 2,036
Non-GAAP adjustment ¹	(866)		(866)	(13.8%)	(1,333)		(1,333)	(14.5%)
Adjusted (Non-GAAP)	\$ 6,201	\$ 6,273	\$ (72)	(1.1%)	\$ 9,877	\$ 9,174	\$ 703	7.7%

Six Months Ended June 30, 2007:	Diluted Earnings Per Share		Return on Equity		Return on Assets		Efficiency Ratio	
	2007	2006	2007	2006	2007	2006	2007	2006
	As reported (GAAP)	\$ 0.81	\$ 0.72	16.95%	15.98%	1.76%	1.79%	61.17%
Non-GAAP adjustment ¹	(0.10)		(2.08%)	0.00%	(.22%)	0.00%	3.04%	0.00%
Adjusted (Non-GAAP)	\$ 0.71	\$ 0.72	14.87%	15.98%	1.54%	1.79%	64.21%	61.37%

¹ The non-GAAP adjustment in 2007 represents the reduction of the effect of the after tax gain on sale of real estate in the first quarter of 2007 of \$866,000. The gain was calculated as the excess of the net sale proceeds over net book value, less income taxes.

Table of Contents

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

(Dollars in thousands)

	Six Months Ended June 30, 2007				
		Wealth	Mortgage	All	
	Banking	Management	Banking	Other	Consolidated
Segment pretax profit (loss) (GAAP)	\$ 6,914	\$ 3,376	\$ 475	\$ (343)	\$ 10,422
Segment pretax gain on sale of real estate	(1,333)				(1,333)
Segment pretax profit (loss) excluding gain on sale of real estate (Non-GAAP)	\$ 5,581	\$ 3,376	\$ 475	\$ (343)	\$ 9,089
% of segment pretax profit (loss) (GAAP)	66.3%	32.4%	4.6%	(3.3%)	100%
% of segment pretax gain on sale of real estate	(4.9%)				100%
% of segment pretax profit (loss) excluding gain on sale of real estate (Non-GAAP)	61.4%	37.1%	5.2%	(3.7%)	100%

	Six Months Ended June 30, 2006				
		Wealth	Mortgage	All	
	Banking	Management	Banking	Other	Consolidated
Segment pretax profit (loss) (GAAP)	\$ 6,434	\$ 2,919	\$ 449	\$ (254)	\$ 9,548
% of segment pretax profit (loss) (GAAP)	67.4%	30.6%	4.7%	(2.7%)	100.0%

Components of Net Income

Net income is affected by five major elements: **Net Interest Income** or the difference between interest income earned on loans and investments and interest expense paid on deposit and borrowed funds; the **Provision for Loan and Lease Losses** or the amount added to the allowance for loan and lease losses to provide reserves for inherent losses on loans and leases; **Non-Interest Income** which is made up primarily of certain fees, trust income, residential mortgage activities and gains and losses from the sale of securities; **Non-Interest Expenses** which consist primarily of salaries, employee benefits and other operating expenses; and **Income Taxes**. Each of these major elements will be reviewed in more detail in the following discussion.

NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

The Rate Volume Analysis and the Analysis of Interest Rates and Interest Differential in the tables below analyze dollar change, volume change, and interest rate changes in the components (interest income and interest expense) of tax equivalent net interest income for the three month period ended June 30, 2007 compared to June 30, 2006, along with a presentation of the major asset categories on an average daily basis for the same periods. The discussion below refers to these tables.

The tax equivalent net interest income for the three months ended June 30, 2007 of \$8.605 million was \$216 thousand or 2.6% higher than the net interest income for the same period in 2006 of \$8.389 million. The analysis below indicates that interest income increased \$2.157 million for the three months ended June 30, 2007 from the same period in 2006. This increase was primarily due to increased loan and lease volume and an increase in the yield on loans and leases. Average loans and leases grew \$100.3 million to \$721.2 million in the second quarter of 2007 from \$620.9 million in the same period in 2006 and the average tax-equivalent loan and lease yield during the second quarter of 2007 increased to 7.09% or 19 basis points from 6.90% during the same period in 2006.

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

However, the growth in tax equivalent interest income was almost entirely offset by an increase in interest expense of \$1.941 million for the three months ended June 30, 2007 from the same period in 2006. The shift in deposits to higher rate certificates of deposit and the need to use more wholesale funding sources due to the challenging environment to generate new deposits resulted in the increased interest expense. The increase in average wholesale certificates of deposits of \$77.0 million from \$6.7 million in the second quarter of 2006 to \$83.7 million for the same period in 2007 was the largest component of the increased interest expense. Average time deposits increased 8.6% in the second quarter of 2007 compared to the same period in 2006, while average savings, NOW and money

Table of Contents

market accounts decreased 6.4% or \$19.0 from \$294.8 in the second quarter of 2006 to \$275.8 in the second quarter of 2007. The result of the changes in the deposit mix and the increase in borrowed funds increased the rate paid on average interest bearing liabilities to 3.27% in the second quarter of 2007 or 92 basis points from 2.35% in the second quarter of 2006.

Rate /Volume Analysis on a tax equivalent basis

(in thousands)	Three months Ended		
	June 30,		
	2007 Compared to 2006		
Increase/(Decrease)	Volume	Rate	Total
Interest Income:			
Interest-bearing deposits with other banks	\$ (1)	\$	\$ (1)
Federal funds sold	(5)	1	(4)
Investment securities available for sale	13	85	98
Loans and leases	1,723	341	2,064
Total interest income	1,730	427	2,157
Interest expense:			
Savings, NOW and market rate accounts	\$ (60)	\$ 123	\$ 63
Time deposits	136	263	399
Wholesale deposits	950	100	1,050
Borrowed funds	400	29	429
Total interest expense	1,426	515	1,941
Interest differential	\$ 304	\$ (88)	\$ 216

The rate volume analysis and the Analysis of Interest Rates and Interest Differential in the tables below analyze dollar change, volume change, and interest rate changes in the components (interest income and interest expense) of tax equivalent net interest income for the six month period ended June 30, 2007 compared to June 30, 2006, along with a presentation of the major asset categories on an average daily basis for the same periods. The discussion below refers to these tables.

The tax equivalent net interest income for the six months ended June 30, 2007 of \$17.081 million was \$432 thousand or 2.6% higher than the net interest income for the same period in 2006 of \$16.649 million. The analysis below indicates that interest income increased \$4.354 million for the six months ended June 30, 2007 from the same period in 2006. This increase was primarily due to average loans and leases growing \$95.1million or 15.6% to \$705.0 million in the six month period ended June 30, 2007 from \$609.9 million in the same period in 2006. The average tax-equivalent loan and lease yield during the first six month of 2007 of 7.08% was 25 basis points higher than the 6.83% during the same period in 2006.

The growth in tax equivalent interest income was almost entirely offset by an increase in interest expense of \$3.922 million for the six months ended June 30, 2007 from the same period in 2006. The shift in deposit to higher rate certificates of deposits and need to use more wholesale funding sources due to the challenging environment to generate new deposits resulted in the increased interest expense. The increase in average wholesale certificates of deposits of \$52.7 million from \$5.1 million for the six months ended June 30, 2006 to \$57.8 million for the same period in 2007 was the largest component of the increased interest expense. Average time deposits increased 19.7% or \$30.0 million to \$182.5 in the first six months of 2007 from \$152.5 in the same period in 2006, while savings, NOW and money market accounts decreased 6.9% or \$20.6 from \$299.2 in the first six months of 2006 to \$278.6 in the same period of 2007. The result of the changes in the deposit mix and the use of borrowed funds increased the rate paid on average interest bearing liabilities to 3.18% for the period ended June 30, 2007 or 104 basis points from 2.14% in the same period in 2006.

Table of Contents**Rate /Volume Analysis on a tax equivalent basis:**

(in thousands)	Six months Ended		
	June 30,		
	2007 Compared to 2006		
Increase/(Decrease)	Volume	Rate	Total
Interest Income:			
Interest-bearing deposits with other banks	\$ (1)	\$ 2	\$ 1
Federal funds sold	(44)	8	(36)
Investment securities available for sale	113	206	319
Loans and leases	3,202	868	4,070
Total interest income	3,270	1,084	4,354
Interest expense:			
Savings, NOW and market rate accounts	\$ (120)	\$ 359	\$ 239
Time deposits	562	742	1,304
Wholesale deposits	1,074	375	1,449
Borrowed funds	856	74	930
Total interest expense	2,372	1,550	3,922
Interest differential	\$ 898	\$ (466)	\$ 432

Table of Contents**Analyses of Interest Rates and Interest Differential**

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

	For the three months ended June 30,					
	2007			2006		
	Average		Average	Average		Average
	Interest	Rates	Interest	Rates	Interest	Rates
	Income/	Earned/		Income/	Earned/	
	Average	Expense	Paid	Average	Expense	Paid
(dollars in thousands)	Balance	Expense	Paid	Balance	Expense	Paid
Assets:						
Interest-bearing deposits with other banks	\$ 568	\$ 7	4.94%	\$ 687	\$ 8	4.67%
Federal funds sold	1,019	14	5.51%	1,467	18	4.92%
Investment securities available for sale:						
Taxable	40,393	514	5.10%	39,249	416	4.25%
Tax-exempt	5,001	59	4.73%	4,948	59	4.78%
Total investment securities	45,394	573	5.06%	44,197	475	4.31%
Loans and leases ^{(1) (2)}	721,223	12,747	7.09%	620,931	10,683	6.90%
Total interest earning assets	768,204	13,341	6.97%	667,282	11,184	6.72%
Cash and due from banks	22,299			24,666		
Allowance for loan and lease losses	(8,537)			(7,686)		
Other assets	47,460			37,803		
Total assets	\$ 829,426			\$ 722,065		
Liabilities:						
Savings, NOW and market rate accounts	\$ 275,777	\$ 977	1.42%	\$ 294,848	\$ 914	1.24%
Time deposits	173,279	1,982	4.59%	159,580	1,584	3.98%
Wholesale deposits	83,664	1,132	5.43%	6,648	82	4.95%
Total interest-bearing deposits	532,720	4,091	3.08%	461,076	2,580	2.24%
Borrowed funds	47,720	645	5.42%	16,738	215	5.15%
Total interest-bearing liabilities	580,440	4,736	3.27%	477,814	2,795	2.35%
Noninterest-bearing demand deposits	148,105			150,586		
Other liabilities	16,041			13,487		
Total noninterest-bearing liabilities	164,146			164,073		
Total liabilities	744,586			641,887		
Shareholders' equity	84,840			80,178		
Total liabilities and shareholders' equity	\$ 829,426			\$ 722,065		
Net interest spread			3.70%			4.37%
Effect of noninterest-bearing sources			0.79%			0.67%

Net interest income/ margin on earning assets.	\$ 8,605	4.49%	\$ 8,389	5.04%
Tax equivalent adjustment	\$ 91	0.05%	\$ 86	0.05%

-
- (1) Non-accrual loans have been included in average loan balances, but interest on nonaccrual loans has not been included for purposes of determining interest income.
- (2) Loans include portfolio loans and leases and loans held for sale.

Table of Contents

	For the six months ended June 30,					
	2007			2006		
	Average			Average		
	Interest	Rates		Interest	Rates	
Average	Income/	Earned/	Average	Income/	Earned/	
(dollars in thousands)	Balance	Expense	Paid	Balance	Expense	Paid
Assets:						
Interest-bearing deposits with other banks	\$ 528	\$ 14	5.35%	\$ 564	\$ 13	4.65%
Federal funds sold	1,804	48	5.37%	3,801	84	4.46%
Investment securities available for sale:						
Taxable	41,202	1,043	5.10%	35,672	723	4.09%
Tax-exempt	5,003	117	4.72%	4,981	118	4.78%
Total investment securities	46,205	1,160	5.06%	40,653	841	4.17%
Loans and leases ⁽¹⁾⁽²⁾	705,010	24,740	7.08%	609,860	20,670	6.83%
Total interest earning assets	753,547	25,962	6.95%	654,878	21,608	6.65%
Cash and due from banks	23,527			24,500		
Allowance for loan and lease losses	(8,396)			(7,606)		
Other assets	42,855			36,809		
Total assets	\$ 811,533			\$ 708,581		
Liabilities:						
Savings, NOW and market rate accounts	\$ 278,559	\$ 1,974	1.43%	\$ 299,151	\$ 1,735	1.17%
Time deposits	182,507	4,166	4.60%	152,548	2,862	3.78%
Wholesale deposits	57,763	1,554	5.43%	5,138	105	4.12%
Total interest-bearing deposits	518,829	7,694	2.99%	456,837	4,702	2.08%
Borrowed funds	44,062	1,187	5.43%	10,177	257	5.09%
Total interest-bearing liabilities	562,891	8,881	3.18%	467,014	4,959	2.14%
Noninterest-bearing demand deposits	148,759			148,941		
Other liabilities	15,826			13,451		
Total noninterest-bearing liabilities	164,585			162,392		
Total liabilities	727,476			629,406		
Shareholders' equity	84,057			79,175		
Total liabilities and shareholders' equity	\$ 811,533			\$ 708,581		
Net interest spread			3.77%			4.51%
Effect of noninterest-bearing sources			0.80%			.62%
Net interest income/ margin on earning assets.		\$ 17,081	4.57%		\$ 16,649	5.13%
Tax equivalent adjustment	\$ 191		.05%	\$ 165		.05%

(1)

Edgar Filing: BRYN MAWR BANK CORP - Form 10-Q

Non-accrual loans have been included in average loan balances, but interest on nonaccrual loans has not been included for purposes of determining interest income.

- (2) Loans include portfolio loans and leases and loans held for sale.

Table of Contents**Tax Equivalent Net Interest Margin**

The Corporation's net interest margin decreased 55 basis points to 4.49% in the second quarter of 2007 from 5.04% in the same period last year. The yield on earning assets increased due to an increase in market rates and the impact of higher yielding leases. Conversely, the cost of interest bearing deposits increased more than the yield on earning assets, a result of the increasing rate environment and the need to remain competitive with pricing in order to be successful in deposit retention and gathering. The impact of the increasing cost of deposits for the second quarter of 2007 was partially offset by higher asset yields when compared to the first quarter of 2007, resulting in a decrease in the net interest margin. The net interest margin and related components for the past five linked quarters are as follows:

Year	Quarter	Interest			Effect of	
		Earning Asset Yield	Bearing Liability Cost	Net Interest Spread	Non-Interest Bearing Sources	Net Interest Margin
2007	2 nd	6.97%	3.27%	3.70%	0.79%	4.49%
2007	1 st	6.93%	3.08%	3.85%	0.80%	4.65%
2006	4 th	6.85%	2.99%	3.86%	0.79%	4.65%
2006	3 rd	6.82%	2.80%	4.02%	0.76%	4.78%
2006	2 nd	6.72%	2.35%	4.37%	0.67%	5.04%

Interest Rate Sensitivity

The Corporation 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. Management's Asset Liability Committee (ALCO), using policies and procedures approved by the Corporation's Board of Directors, is responsible for managing the interest rate sensitivity position. The Corporation manages interest rate sensitivity by changing the mix, pricing and repricing characteristics of its assets and liabilities, through the management of its investment portfolio, its offering of loan and deposit terms and through borrowings from the Federal Home Loan Bank of Pittsburgh (FHLB).

The Corporation uses several tools to manage its interest rate risk including interest rate sensitivity analysis (aka Gap Analysis), market value of portfolio equity analysis, interest rate simulations under various rate scenarios and net interest margin reports. The results of these reports are compared to limits established by the Corporation's Asset Liability Management Policies and appropriate adjustments are made if the results are outside of established limits.

The following table demonstrates the annualized result of an interest rate simulation and the expected effect that a parallel interest rate shift in the yield curve and subjective adjustments in deposit pricing might have on the Corporation's projected net interest income over the next 12 months. The changes to net interest income shown below are in compliance with the Corporation's policy guidelines.

Summary of Interest Rate Simulation

June 30, 2007
Change In Net Interest Income Over

(dollars in thousands)

Next 12 Months

Change in Interest Rates