BRYN MAWR BANK CORP
Form 10-Q
November 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For Quarter ended September 30, 2018

Commission File Number 1-35746

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

Pennsylvania	23-2434506
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No.)
801 Lancaster Avenue, Bryn Mawr, Pennsylvania	19010
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
Former name, former address and fiscal year, if changed since last report.

Indicate by checkmark whether the registrant (1) has filed all reports to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company Emerging growth company
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2018

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements
BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets - Unaudited

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

outstanding of 20,292,420 and 20,161,395 as of September 30, 2018 and December 31, 2017, respectively		
Paid-in capital in excess of par value	373,205	371,486
Less: Common stock in treasury at cost - 4,240,325 and 4,198,654 shares as of September 30, 2018 and December 31, 2017, respectively	(70,437)	(68,179)
Accumulated other comprehensive loss, net of tax	(13,402)	(4,414)
Retained earnings	238,204	205,549
Total Bryn Mawr Bank Corporation shareholders' equity	552,103	528,802
Noncontrolling interest	(678)	(683)
Total shareholders' equity	551,425	528,119
Total liabilities and shareholders' equity	$ 4,388,442	$ 4,449,720

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

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

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

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

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

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

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

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows - Unaudited

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

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

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes In Shareholders' Equity - Unaudited

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

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

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

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

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Presentation

The Unaudited Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). In the opinion of Bryn Mawr Bank Corporation’s (the “Corporation”) management, all adjustments necessary for a fair presentation of the consolidated financial position and the results of operations for the interim periods presented have been included. These Unaudited Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto in the Corporation’s Annual Report on Form 10-K for the twelve months ended December 31, 2017 (the “2017 Annual Report”).

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

Principles of Consolidation

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

Note 2 - Recent Accounting Pronouncements

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

Adopted Pronouncements:

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

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

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

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

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

The Corporation adopted ASU 2016-15, which provides guidance on eight specific cash flow issues and their disclosure in the consolidated statements of cash flows. The issues addressed include debt prepayment, settlement of zero-coupon debt, contingent consideration in business combinations, proceeds from settlement of insurance claims, proceeds from settlement of BOLI, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements and related disclosures.

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

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

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

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

Upon adoption, the components of net periodic benefit cost other than the service cost component were reclassified retrospectively from “Employee benefits” to “Other operating expenses” in the Consolidated Statements of Income. Since both “Employee benefits” and “Other operating expenses” line items are under “Noninterest expenses”, there was no impact to total “Noninterest expenses” or “Net income.” The components of net periodic benefit cost are currently disclosed in Note 17 – “Pension and Postretirement Benefit Plans” in the Notes to Consolidated Financial Statements found in our 2017 Annual Report. Additionally, the Corporation does not currently capitalize any components of its net periodic benefit costs. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements and related disclosures.

Pronouncements Not Yet Effective:

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

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

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

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

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

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

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

FASB ASU 2016-2 (Topic 842), “Leases”

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

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

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

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

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Note 3 - Business Combinations

Domenick & Associates ("Domenick")

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

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

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

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

Royal Bancshares of Pennsylvania, Inc.

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

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

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

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

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

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

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

Methods Used to Fair Value Assets and Liabilities

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

Loans Held for Investment

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

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

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

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

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

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

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

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

Pro Forma Income Statements (unaudited)

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

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

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

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

Due Diligence, Merger-Related and Merger Integration Expenses

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

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

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

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Note 4 - Investment Securities

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

As of September 30, 2018

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

As of December 31, 2017

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

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

As of September 30, 2018

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

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As of December 31, 2017

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

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

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

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

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

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

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

As of September 30, 2018

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

As of December 31, 2017

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

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

As of September 30, 2018

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

As of December 31, 2017

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

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

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

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

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

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Note 5 - Loans and Leases

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

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

	September 30, 2018			December 31, 2017		
(dollars in thousands)	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Loans held for sale	$4,111	$—	$4,111	$3,794	$—	$3,794
Real Estate Loans:						
Commercial mortgage	$1,259,397	$359,096	$1,618,493	$1,122,327	$401,050	$1,523,377
Home equity lines and loans	180,068	27,738	207,806	183,283	34,992	218,275
Residential mortgage	381,037	86,365	467,402	360,935	97,951	458,886
Construction	158,691	19,802	178,493			