

BRYN MAWR BANK CORP
Form 10-Q
May 10, 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 March 31, 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.

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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 May 3, 2007
Common Stock, par value \$1	8,541,280

Table of Contents

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

FORM 10-Q

QUARTER ENDED March 31, 2007

Index

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

Consolidated Financial Statements

Page 1

Notes to Consolidated Financial Statements

Page 5

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

Page 12

ITEM 3. Quantitative and Qualitative Disclosures About Market Risks

Page 27

ITEM 4. Controls and Procedures

Page 27

PART II OTHER INFORMATION

Page 27

ITEM 1. Legal Proceedings

Page 28

ITEM 1A. Risk Factors

Page 28

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

Page 28

ITEM 3. Defaults Upon Senior Securities

Page 28

ITEM 4. Submission of Matters to Vote of Security Holders

Page 28

ITEM 5. Other Information

Page 28

ITEM 6. Exhibits

Page 29

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

	Three Months Ended	
	March 31	
(dollars in thousands, except per share data)	2007	2006
Net interest income:		
Interest income:		
Interest and fees on loans	\$ 11,911	\$ 9,914
Interest on federal funds sold	34	66
Interest on interest bearing deposits with banks	6	5
Interest on investment securities	570	360
Total interest income	12,521	10,345
Interest expense:		
Savings, NOW, and market rate accounts	998	821
Wholesale and time deposits	2,606	1,301
Borrowed funds	541	42
Total interest expense	4,145	2,164
Net interest income	8,376	8,181
Loan and lease loss provision	250	154
Net interest income after loan and lease loss provision	8,126	8,027
Non-interest income:		
Fees for wealth management services	3,287	3,120
Service charges on deposit accounts	360	379
Loan servicing and other fees	337	363
Net gain on sale of loans	280	250
Net gain on sale of real estate	1,333	
Other operating income	549	487
Total non-interest income	6,146	4,599
Non-interest expenses:		
Salaries and wages	4,048	3,829
Employee benefits	1,221	1,318
Occupancy and bank premises	686	624
Furniture, fixtures, and equipment	507	482
Advertising	316	200
Amortization of mortgage servicing rights	92	86
Professional fees	401	297
Other operating expenses	1,164	1,009

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Total non-interest expenses	8,435	7,845
Income before income taxes	5,837	4,781
Income taxes	1,861	1,645
Net income	\$ 3,976	\$ 3,136
Basic earnings per share	\$ 0.46	\$ 0.37
Diluted earnings per share	\$ 0.46	\$ 0.36
Dividends declared per share	\$ 0.12	\$ 0.11
Weighted-average basic shares outstanding	8,575,172	8,570,675
Dilutive potential common shares	121,519	109,837
Weighted-average dilutive shares outstanding	8,696,691	8,680,512

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**

	March 31,	December 31,
(dollars in thousands, except per share data)	2007	2006
Assets		
Cash and due from banks	\$ 25,114	\$ 61,473
Interest bearing deposits with banks	407	532
Federal funds sold	7,885	
Total cash and cash equivalents	33,406	62,005
Investment securities available for sale, at fair value (amortized cost of \$46,046 and \$48,632 as of March 31, 2007 and December 31, 2006, respectively)	45,772	48,232
Loans held for sale	7,448	3,726
Portfolio loans and leases	691,549	681,291
Less: Allowance for loan and lease losses	(8,366)	(8,122)
Net portfolio loans and leases	683,183	673,169
Premises and equipment, net	16,477	16,571
Accrued interest receivable	3,985	4,232
Deferred income taxes	3,114	2,946
Mortgage servicing rights	2,847	2,883
Other assets	14,690	12,896
Total assets	\$ 810,922	\$ 826,660
Liabilities		
Deposits:		
Noninterest-bearing demand	\$ 152,926	\$ 198,546
Savings, NOW and market rate accounts	279,117	295,521
Time deposits	166,967	200,446
Wholesale deposits	65,270	19,976
Total deposits	664,280	714,489
Borrowed funds	45,000	15,000
Accrued interest payable	4,549	4,346
Other liabilities	11,512	10,442
Total liabilities	725,341	744,277
Shareholders equity		
Common stock, par value \$1; authorized 25,000,000 shares; issued 11,419,432 and 11,373,182 shares as of March 31, 2007 and December 31, 2006 respectively and outstanding of 8,582,172 and 8,562,209 shares as of March 31, 2007 and December 31, 2006, respectively	11,419	11,373
Paid-in capital in excess of par value	11,375	10,598
Accumulated other comprehensive income, net of taxes	(4,404)	(4,450)
Retained earnings	95,052	92,106

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	113,442	109,627
Less: Common stock in treasury at cost 2,837,260, and 2,810,973 shares as of March 31, 2007 and December 31, 2006 respectively	(27,861)	(27,244)
Total shareholders' equity	85,581	82,383
Total liabilities and shareholders' equity	\$ 810,922	\$ 826,660
Book value per share	\$ 9.97	\$ 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)	Three Months Ended March 31	
	2007	2006
Operating activities:		
Net income	\$ 3,976	\$ 3,136
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Provision for loan and lease losses	250	154
Provision for depreciation and amortization	388	367
Loans originated for resale	(23,248)	(15,597)
Proceeds from loans sold	19,806	14,551
Gain on sale of loans	(280)	(250)
Gain on sale of real estate	(1,333)	
Provision for deferred income taxes (benefit)	(187)	(580)
Change in income tax payable/receivable	1,968	1,945
Change in accrued interest receivable	247	(35)
Change in accrued interest payable	203	285
Change in mortgage servicing rights, net	36	2
Other, net	(2,849)	(2,604)
Net cash (used) provided by operating activities	(1,023)	1,374
Investing activities:		
Purchases of investment securities	(421)	(8,810)
Proceeds from maturity of investment securities and mortgage-backed securities pay downs	3,070	
Proceeds from calls of investment securities		200
Proceeds from sale of real estate	1,850	
Net portfolio loan and lease (originations) repayments	(10,264)	(11,398)
Net change in premises and equipment	(779)	(371)
Net cash used by investing activities	(6,544)	(20,379)
Financing activities:		
Change in demand, NOW, savings and market rate deposit accounts	(62,024)	(26,256)
Change in time deposits	(33,479)	(6,911)
Change in wholesale deposits	45,294	5,000
Dividends paid	(1,029)	(944)
Change in borrowed funds	30,000	8,000
Purchase of treasury stock	(617)	(889)
Tax benefit from exercise of stock options	146	158
Proceeds from exercise of stock options	677	845
Net cash used by financing activities	(21,032)	(20,997)
Change in cash and cash equivalents	(28,599)	(40,002)
Cash and cash equivalents at beginning of period	62,005	66,642
Cash and cash equivalents at end of period	\$ 33,406	\$ 26,640

Supplemental cash flow information:

Cash paid during the year for:

Income taxes paid	\$ 39	\$ 20
Interest paid	\$ 3,942	\$ 1,879

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

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

	Three Months Ended	
	March 31,	
(dollars in thousands)	2007	2006
Net income	\$ 3,976	\$ 3,136
Other comprehensive income:		
Unrealized investment gains (losses), net of tax expense (benefit) \$44 and (\$81), respectively	83	(151)
Change in unfunded pension liability, net of tax (benefit) expense of \$19 and \$0, respectively	(37)	
Total comprehensive income	\$ 4,022	\$ 2,985

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****March 31, 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.

The results of operations for the three month period ended March 31, 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 March 31,	
	2007	2006
Numerator:		
Net income available to common shareholders	\$ 3,976	\$ 3,136
Denominator for basic earnings per share weighted average basic shares outstanding	8,575,172	8,570,675
Effect of dilutive potential common shares	121,519	109,837
Denominator for diluted earnings per share weighted average dilutive shares outstanding	8,696,691	8,680,512
Basic earnings per share	\$ 0.46	\$ 0.37
Diluted earnings per share	\$ 0.46	\$ 0.36
Antidilutive shares excluded from computation of average dilutive earnings per share	8,444	3,250

3. Allowance for Loan and Lease Losses

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.

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.

Table of Contents

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 three months ended March 31, 2007 and 2006 was \$7 thousand and \$39 thousand, respectively. This expense had no material impact on earnings or diluted earnings per share in either period.

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 March 31, 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.

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. Details of the LTIP are documented in detail in the Corporation's 2007 Proxy Statement.

The following table provides information about options outstanding for the three-months ended March 31, 2007:

		Weighted Average	Weighted 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	(46,250)	\$ 14.64	\$ 3.02
Options outstanding March 31, 2007	747,650	\$ 17.88	\$ 3.88

The following table provides information about unvested options for the three-months ended March 31, 2007:

		Weighted Average	Weighted Average Grant
	Shares	Exercise Price	Date Fair Value
Unvested options December 31, 2006	11,375	\$ 22.89	\$ 6.44

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Granted	4,000	23.77	6.82
Vested			
Forfeited			
Unvested options March 31, 2007	15,375	\$ 23.12	\$ 6.54

Table of Contents

The total not-yet-recognized compensation expense of unvested stock options is \$88,254. This expense will be recognized over a weighted average period of 31 months.

Proceeds, related tax benefits realized from options exercised and intrinsic value of options exercised during the quarters ended March 31, 2007 and 2006 were as follows:

	2007	2006
Proceeds from strike price of value of options exercised	\$ 677,023	\$ 845,406
Related tax benefit recognized	145,638	158,191
Proceeds of options exercised	\$ 822,661	\$ 1,003,597
Intrinsic value of options exercised	\$ 416,110	\$ 451,968

The following table provides information about options outstanding and exercisable options at March 31, 2007:

	Outstanding	Exercisable
Number	747,650	732,275
Weighted average exercise price	\$ 17.88	\$ 17.77
Aggregate intrinsic value	\$ 3,945,632	\$ 3,939,553
Weighted average contractual term (in years)	6.3	6.3

For the three months ended March 31, 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), and 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 March 31, 2007 and 2006:

	For Three Months					
	Ended March 31					
	Non-Qualified		Qualified		Post-Retirement	
	Defined Benefit		Defined Benefit		Benefit Plan	
	Pension Plan		Pension Plan		Benefit Plan	
	2007	2006	2007	2006	2007	2006
Service cost	\$ 10	\$ 9	\$ 300	\$ 314	\$ 4	\$ 3

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Interest cost	28	25	425	409	28	35
Expected return on plan assets			(575)	(557)		
Amortization of transition obligation					6	6
Amortization of prior service costs	11	12	25	20	(34)	(34)
Amortization of net (gain) loss			100	141	33	51
Net periodic benefit cost	\$ 49	\$ 46	\$ 275	\$ 327	\$ 37	\$ 61

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 \$33 thousand during the first quarter of 2007 and is expected to contribute approximately \$132 thousand to the SERP plan for 2007. Additionally, the Corporation contributed \$49 thousand to the PRBP in the first quarter of 2007 and expects to contribute an additional \$150 thousand in 2007. As of March 31, 2007 no contributions have been made to QDBP for 2007.

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.

The Corporation has identified four segments as defined by FAS 131 as follows: Banking, Wealth Management, Mortgage Banking and All Other. Footnote 24 Segment Information, in the Notes to the Consolidated Financial Statements in the Corporation's 2006 Annual Report on Form 10K provides additional descriptions of the identified segments.

Table of Contents

Segment information for the quarter ended March 31, 2007 and 2006 is as follows:

(Dollars in thousands)

	Wealth		2007 Mortgage	All	
	Banking	Management	Banking	Other	Consolidated
Net interest income	\$ 8,338	\$	\$ 36	\$ 2	\$ 8,376
Less: Loan loss provision	250				250
Net interest income after loan and lease loss provision	8,088		36	2	8,126
Other income:					
Fees for wealth management services		3,287			3,287
Service charges on deposit accounts	360				360
Loan servicing and other fees	73		264		337
Net gain on sale of loans			280		280
Net gain on sale of real estate	1,333				1,333
Other income	481		23	45	549
Total other income	2,247	3,287	567	45	6,146
Other expenses:					
Salaries and wages	2,681	1,125	182	60	4,048
Employee benefits	971	209	30	11	1,221
Occupancy and bank premises	1,057	137	38	(39)	1,193
Other operating expense	1,516	268	161	28	1,973
Total other expense	6,225	1,739	411	60	8,435
Segment profit (loss) before income taxes	4,110	1,548	192	(13)	5,837
Intersegment pretax revenues (expenses) *	125	45	10	(180)	
Segment pretax profit (loss)	\$ 4,235	\$ 1,593	\$ 202	\$ (193)	\$ 5,837
% of segment pretax profit (loss)	72.6%	27.3%	3.5%	(3.3)%	100%

	Wealth		2006** Mortgage	All	
	Banking	Management	Banking	Other	Consolidated
Net interest income	\$ 8,151	\$	\$ 20	\$ 10	\$ 8,181
Less: Loan loss provision	154				154
Net interest income after loan loss provision	7,997		20	10	8,027
Other income:					
Fees for wealth management services		3,120			3,120
Service charges on deposit accounts	379				379
Loan servicing and other fees	64		299		363
Net gain on sale of loans			250		250
Other operating income	407		15	65	487
Total other income	850	3,120	564	65	4,599
Other expenses:					
Salaries and wages	2,530	1,062	147	90	3,829

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Employee benefits	1,061	215	29	13	1,318
Occupancy and bank premises	929	159	49	(31)	1,106
Other operating expense	1,295	258	153	(114)	1,592
Total other expense	5,815	1,694	378	(42)	7,845
Segment profit (loss) before income taxes	3,032	1,426	206	117	4,781
Intersegment pretax revenues (expenses) *	(20)	45		(25)	
Segment pretax profit (loss)	\$ 3,012	\$ 1,471	\$ 206	\$ 92	\$ 4,781
% of segment pretax profit (loss)	63.0%	30.8%	4.3%	(1.9)%	100.0%

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

** Reclassified for comparative purposes.

Table of Contents

Other segment information for the quarter ended March 31, 2007 and 2006 is as follows:

(dollars in millions)	2007	2006
Wealth Management Segment:		
Wealth Assets Under Management and Administration	\$ 2,522.4	\$ 2,262.1
Mortgage Banking Segment:		
Mortgage Loans Serviced for Others	\$ 377.5	\$ 409.4
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.

7. Mortgage Servicing Rights

The following summarizes the Corporation's activity related to mortgage servicing rights (MSRs) for the three months ended March 31, 2007 and 2006:

(dollars in thousands)	2007	2006
Balance, January 1	\$ 2,883	\$ 2,982
Additions	56	84
Amortization	(84)	(86)
Impairment	(8)	
Balance, March 31	\$ 2,847	\$ 2,980
Fair Value	\$ 4,165	\$ 4,828

There was \$8 thousand of temporary impairment on MSRs for the three months ended March 31, 2007. For the three months ended March 31, 2006 there was no impairment. The temporary impairment is concentrated in higher rate mortgages.

At March 31, 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:

	March 31,
(dollars in thousands)	2007
Fair value amount of MSRs	\$ 4,165
Weighted average life (in years)	6.6
Prepayment speeds (constant prepayment rate)*:	11.8
Impact on fair value:	
10% adverse change	\$ (165)
20% adverse change	\$ (334)
Discount rate:	
Impact on fair value:	10.00%
10% adverse change	\$ (108)
20% adverse change	\$ (223)

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

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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.

Table of Contents**8. Impaired Loans and Leases**

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

(dollars in thousands)	For The Three Months Ended March 31,		For The Twelve Months Ended
	2007	March 31, 2006	December 31, 2006
Period end balance	\$ 371	\$ 773	\$ 704
Average period to date balance	270	778	801
Loans and leases with specific loss allowances			
Charge offs and recoveries	6		114
Loss allowances reserved			
Period to date income recognized	\$	\$ 22	\$ 38

9. Capital

The Corporation declared and paid a regular dividend of \$0.12 per share, during the first quarter of 2007. This payment totaled \$1,029 thousand.

During the first quarter of 2007, the Corporation repurchased 26,287 shares of its common stock for \$617,000 at an average purchase price of \$23.47 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 for 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 March 31, 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 during the first quarter of 2007 on its consolidated financial statements.

FAS 156

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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 158 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

Table of Contents

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 its 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 during the first quarter of 2007 on its consolidated financial statements.

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.

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. Subsequent Event

On May 1, 2007 a significant Wealth Division customer announced its intention to be acquired by a financial institution. 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.

Revenues from this customer for the three months ended March 31, 2007 and 2006 were \$177 thousand and \$103 thousand, respectively. Wealth Division revenue in 2006 included \$403 thousand from this customer. Wealth Division assets under management and administration, not included in the consolidated balance sheet, associated with this customer were \$413 million and \$412 million as of March 31, 2007 and December 31, 2006, respectively.

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:

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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;

Table of Contents

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;

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 (such as the September 11, 2001 events, the war on terrorism and the U.S. Government's response to those events including the war in Iraq);

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 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 (NASD) 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.

Table of Contents

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 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 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 first quarter 2007 diluted earnings per share of \$0.46, an increase of \$0.10 or 27.8% compared to \$0.36 in the same period of 2006. Net income for the first quarter of 2007 was \$3.976 million, an increase of 26.8% or \$840,000, compared to \$3.136 million in last year's first quarter. The primary factor contributing to the increase in earnings for the first quarter of 2007 compared to the same period last year was a \$0.10 per diluted 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 estate gain, first quarter 2007 diluted earnings per share and net income were \$0.36 per share and \$3.110 million, respectively, essentially unchanged from first quarter 2006 results but in line with management's expected internal projections.

Having anticipated a large one-time gain on the sale of real estate during this first quarter, the Corporation began a number of initiatives in the latter part of 2006. All of these initiatives are expected to be dilutive to earnings in 2007. They include the formation of an equipment leasing company, the start-up of a loan production office in West Chester, the opening of our new Ardmore Office and the re-tooling of our Wealth Services area. In addition, on May 1, 2007, the Bank is starting a Private Banking Group to better meet the needs of the Bank's most affluent clients. These initiatives are expected to be accretive to earnings in 2008.

Additionally, first quarter 2007 results reflect the continued unfavorable interest rate environment as net interest income grew only \$195,000 or 2.4% from the first quarter of 2006 and actually decreased \$49,000 or 0.6% from the fourth quarter of 2006.

Return on average equity (ROE) and return on average assets (ROA) for the quarter ended March 31, 2007 were 19.36% (15.15% excluding the real estate gain) and 2.03% (1.59% excluding the real estate gain), respectively. ROE was 16.27% and ROA was 1.83% for the same period last year. The tax equivalent net interest margin for the first quarter of 2007 was 4.65% compared with 5.22% in the first quarter of 2006. This decrease reflects the Corporation's need to fund earning asset growth in 2007 with wholesale funding at a rate of 5.42% and a continued change in deposit mix which is discussed later in this document. The net interest margin of 4.65% for the first quarter of 2007 is unchanged from the fourth quarter of 2006, reflecting higher earning asset yields provided by the leasing company, offset by higher funding costs.

Table of Contents

Total portfolio loans and leases at March 31, 2007 were \$691.5 million, an increase of \$84.9 million or 14.0% from \$606.6 million at March 31, 2006 and an increase of \$10.2 million or 6.0% (annualized) from year end balances of \$681.3 million. Leases at March 31, 2007 of \$16.9 million were 2.4% of total portfolio loans and leases. The lease portfolio is presently growing at a rate of over \$3 million per month. Credit quality on the entire loan and lease portfolio continues to be very strong as nonperforming loans and leases of \$417,000 represents less than 0.07% 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 Corporation has an experienced underwriting team, the lease portfolio is geographically diverse, and the average customer exposure is less than \$25,000. At March 31, 2007, the allowance for loan and lease losses of \$8.366 million represents 1.21% of portfolio loans and leases compared with 1.19% at December 31, 2006.

Total liabilities declined \$18.9 million from \$744.2 million at December 31, 2006 to \$725.3 million at March 31, 2007. This decline was driven by a decrease in deposits of \$50.2 million or 7.0% over the past three months to \$664.3 million at March 31, 2007 from \$714.5 million at December 31, 2006 partially offset by an increase in borrowed funds of \$30 million. The decrease in deposits is primarily due to the competitive environment for retaining and gathering deposits and the larger deposit inflows of approximately \$35.0 million that temporarily boosted year-end deposits. The decline is concentrated in savings, NOW and market rate accounts which decreased \$16.4 million or 5.5% to \$279.1 million from \$295.5 million at December 31, 2006.

The Corporation's plans to increase core funding include the opening of a West Chester Branch location in 2008, the refurbishment of the Wayne branch location in the Fall of 2007 and the introduction of Easy Banking, a remote capture product that allows high volume commercial customers to electronically transmit their check deposits from their office. Once implemented, these plans should have a positive impact on deposit growth over the next few years.

On May 1, 2007 a significant Wealth Division customer announced its intention to be acquired by a financial institution. 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.

Revenues from this customer for the three months ended March 31, 2007 and 2006 were \$177 thousand and \$103 thousand, respectively. Wealth Division revenue in 2006 includes \$403 thousand from this customer. Wealth Division assets under management and administration, not included in the consolidated balance sheet, associated with this customer were \$413 million and \$412 million as of March 31, 2007 and December 31, 2006, respectively.

Key Performance Ratios

Key financial performance ratios for the three months ended March 31, 2007 and 2006 are shown in the table below:

	Three Months Ended		
	2007*	March 31, 2007	March 31, 2006
Return on Average Equity (ROE)	15.15%	19.36%	16.27%
Return on Average Assets (ROA)	1.59%	2.03%	1.83%
Efficiency Ratio	63.96%	58.08%	61.39%
Net Interest Margin	4.65%	4.65%	5.22%
Diluted Earnings Per Share	\$ 0.36	\$ 0.46	\$ 0.36
Dividend Per Share	\$ 0.12	\$ 0.12	\$ 0.11

* The ratios are also presented for the three months ended March 31, 2007 excluding the gain on sale of real estate.

	March 31	December 31	March 31
	2007	2006	2006
Book Value Per Share	\$ 9.97	\$ 9.62	\$ 9.29
Allowance for Loan and lease losses as a Percentage of Loans	1.21%	1.19%	1.25%

Table of Contents**Reconciliation of Non-GAAP Information for the three months ended March 31, 2007**

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)

	Net Income		Change		Non-interest 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	33.6%
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%

	Diluted Earnings Per Share		Change		Return on Equity		Return on Assets	
	2007	2006	Dollars	Percentage	2007	2006	2007	2006
As reported (GAAP)	\$ 0.46	\$ 0.36	\$ 0.10	27.8%	19.36%	16.27%	2.03%	1.83%
Non-GAAP adjustment ¹	(0.10)		(0.10)	(27.8)%	(4.21)%		(0.44)%	
Adjusted (Non-GAAP)	\$ 0.36	\$ 0.36		(0.0)%	15.15%	16.27%	1.59%	1.83%

	Efficiency Ratio	
	2007	2006
As reported (GAAP)	58.08%	61.39%
Non-GAAP adjustment ¹	5.88%	
Adjusted (Non-GAAP)	63.96%	61.39%

¹ The non-GAAP adjustment in 2007 represents the reduction of the effect of the after tax gain on sale of real estate 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)	2007		2006		Consolidated
	Banking	Wealth Management	Banking	Wealth Management	
Segment pretax profit (loss) (GAAP)	\$ 4,235	\$ 1,593	\$ 202	\$ (193)	\$ 5,837
% of segment pretax profit (loss) (GAAP)	72.6%	27.3%	3.5%	(3.3)%	100%
Segment pretax profit (loss) - excluding gain on sale of real estate (Non-GAAP)	\$ 2,902	\$ 1,593	\$ 202	\$ (193)	\$ 4,504
% of segment pretax profit (loss) excluding gain on sale of real estate (Non-GAAP)	64.4%	35.4%	4.5%	(4.3)%	100%
	2007		2006		Consolidated
	Banking	Wealth Management	Banking	Wealth Management	
Segment pretax profit (loss) (GAAP)	\$ 3,012	\$ 1,471	\$ 206	\$ 92	\$ 4,781
% of segment pretax profit (loss) (GAAP)	63.0%	30.8%	4.3%	(1.9)%	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 tax equivalent net interest income for the three months ended March 31, 2007 of \$8.475 million was \$215 thousand or 2.6% higher than the net interest income for the same period in 2006 of \$8.260 million. The analyses below indicate that increased loan volume was the primary driver of the increase in net interest income. However, the growth in interest income was partially offset by an increase in interest expense as the deposit mix continues to shift to higher rate products and the Corporation is using more wholesale certificates of deposit as a source of funding. Average earning assets increased \$96.4 million or 15.0% in the first quarter of 2007 compared to the same period in 2006.

Average loans grew \$90.0 million or 15% while investments increased \$10.0 million or 26.9% over 2006. The average earning asset yield during the first quarter of 2007 of 6.93% was 35 basis points higher than the 6.58% during the same period in 2006 as rates and volume increased. The rate paid on average interest bearing liabilities of 3.08% in 2007 was 116 basis points higher than the 1.92% in 2006 due to the payment of higher rates on interest bearing deposits and the increase in wholesale CDs. Average time deposits increased 30.0% in the first quarter of 2007 compared to the same period in 2006, while savings, NOW and money market accounts decreased 7.7% during the same time period.

The rate volume analysis in the table below analyzes dollar changes in the components (interest income and interest expense) of tax equivalent net interest income for the quarter ended March 31, 2007 compared to March 31, 2006 broken out by rate and volume.

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

(in thousands)	Three Months Ended		
	March 31,		
	2007 Compared to 2006		
Increase/(Decrease)	Volume	Rate	Total
Interest Income:			
Interest-bearing deposits with other banks	\$ 1	\$	\$ 1
Federal funds sold	(38)	6	(32)
Investment securities available for sale	95	126	221
Loans	1,511	495	2,006
Total interest income	1,569	627	2,196
Interest expense:			
Savings, NOW and market rate accounts	(64)	241	177
Wholesale deposits	422		422
Time deposits	388	495	883
Borrowed funds	436	63	499
Total interest expense	1,182	799	1,981
Interest differential	\$ 387	\$(172)	\$ 215

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

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

	For the Three Months ended March 31,					
	2007			2006		
	Average	Interest	Rates	Average	Interest	Rates
	Income/	Earned/		Income/	Earned/	
(dollars in thousands)	Balance	Expense	Paid	Balance	Expense	Paid
Assets:						
Interest-bearing deposits with other banks	\$ 486	\$ 6	5.01%	\$ 439	\$ 5	4.62%
Federal funds sold	2,597	34	5.31%	6,161	66	4.34%
Investment securities available for sale:						
Taxable	42,023	529	5.11%	32,053	306	3.87%
Tax-exempt	5,006	58	4.70%	5,014	60	4.85%
Total investment securities	47,029	587	5.06%	37,069	366	4.00%
Loans and leases ^{(1) (2)}	688,616	11,993	7.06%	598,663	9,987	6.77%
Total interest earning assets	738,728	12,620	6.93%	642,332	10,424	6.58%
Cash and due from banks	24,766			24,332		
Allowance for loan and lease losses	(8,254)			(7,524)		
Other assets	38,297			35,819		
Total assets	\$ 793,537			\$ 694,959		
Liabilities:						
Savings, NOW and market rate accounts	\$ 281,373	\$ 998	1.44%	\$ 304,942	\$ 821	1.09%
Wholesale deposits	31,573	422	5.42%			
Time deposits	191,838	2,184	4.62%	147,610	1,301	3.57%
Total interest-bearing deposits	504,784	3,604	2.90%	452,552	2,122	1.90%
Borrowed funds	40,363	541	5.44%	3,544	42	4.81%
Total interest-bearing liabilities	545,147	4,145	3.08%	456,096	2,164	1.92%
Noninterest-bearing demand deposits	149,420			147,274		
Other liabilities	15,704			13,419		
Total noninterest-bearing liabilities	165,124			160,693		
Total liabilities	710,271			616,789		
Shareholders' equity	83,266			78,170		
Total liabilities and shareholders' equity	\$ 793,537			\$ 694,959		
Net interest spread			3.85%			4.66%
Effect of noninterest-bearing sources			.80%			0.56%

Net interest income/ margin on earning assets	\$ 8,475	4.65%	\$ 8,260	5.22%
Tax equivalent adjustment	\$ 99	0.05%	\$ 79	0.05%

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- (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 loans and leases held for sale.

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

The Corporation's net interest margin decreased 57 basis points to 4.65% in the first quarter of 2007 from 5.22% 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 first quarter of 2007 was offset by higher asset yields when compared to the fourth quarter of 2006, resulting in no change 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	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%
2006	1 st	6.58%	1.92%	4.66%	0.56%	5.22%

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

(dollars in thousands)	March 31, 2007	
	Change In Net Interest Income Over Next 12 Months	
Change in Interest Rates		
+200 basis points	\$ 756	2.00%
+100 basis points	\$ 436	1.15%
-100 basis points	\$ (459)	(1.21)%
-200 basis points	\$ (928)	(2.46)%

The interest rate simulation above indicates that the Corporation's balance sheet as of March 31, 2007 is asset sensitive meaning that an increase in interest rates should increase net interest income and a decline in interest rates will cause a decline in net interest income over the next

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12 months. The asset sensitivity position has been reduced over the past year with the addition of fixed rate commercial loans, residential mortgages and mortgage-backed securities to the asset mix. Additionally, the Corporation purchased a \$25 million three-year interest rate floor in April, 2006 to mitigate the impact on earnings of declining rates over the next three years.

Table of Contents**GAP Report**

The table below indicates that the Corporation is asset sensitive in the immediate to 90 day time frame and should experience an increase in net interest income in the near term if interest rates rise. The converse is also true.

The following table presents the Corporation's interest rate sensitivity position or GAP Analysis as of March 31, 2007:

	0 to 90	90 to 365	1-5	Over	Non-Rate	
(dollars in thousands)	Days	Days	Years	5 Years	Sensitive	Total
Assets:						
Interest-bearing deposits with banks	\$ 407	\$	\$	\$	\$	\$ 407
Federal funds sold	7,885					7,885
Investment securities	6,761	9,092	19,492	10,427		45,772
Loans and leases ⁽¹⁾	271,085	61,067	270,069	96,776		698,997
Allowance	(299)	(896)	(4,781)	(2,390)		(8,366)
Cash and due from banks					25,114	25,114
Other assets			136	400	40,577	41,113
Total assets	\$ 285,839	\$ 69,263	\$ 284,916	\$ 105,213	\$ 65,691	\$ 810,922
Liabilities and shareholders' equity:						
Non-interest-bearing demand	\$ 31,686	\$ 19,143	\$ 102,097	\$	\$	\$ 152,926
Savings, NOW and market rate	46,455	39,441	149,199	44,022		279,117
Time deposits	119,212	104,001	8,900	124		232,237
Borrowed funds	15,000	30,000				45,000
Other liabilities					16,061	16,061
Shareholders' equity	3,056	9,169	48,903	24,453		85,581
Total liabilities and shareholders' equity	\$ 215,409	\$ 201,754	\$ 309,099	\$ 68,599	\$ 16,061	\$ 810,922
Interest earning assets	\$ 286,138	\$ 70,159	\$ 289,561	\$ 107,203		\$ 753,061
Interest bearing liabilities	180,667	173,442	158,099	44,146		556,354
Difference between interest earning assets and interest bearing liabilities	\$ 105,471	\$ (103,283)	\$ 131,462	\$ 63,057	\$	\$ 196,707
Cumulative difference between interest earning assets and interest bearing liabilities	\$ 105,471	\$ 2,188	\$ 133,650	\$ 196,707	\$	\$ 196,707
Cumulative earning assets as a % of cumulative interest bearing liabilities	158%	101%	126%	135%		

⁽¹⁾ Loans include portfolio loans and loans and leases held for sale.

PROVISION FOR LOAN AND LEASE LOSSES**General Discussion of the Allowance for Loan and Lease Losses**

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

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Increases to the allowance for loan and lease losses are implemented through a corresponding provision (expense) in the Corporation's statement of income. Credit exposures deemed to be uncollectible are charged against the allowance for loan and lease losses. Recoveries of previously charged-off amounts are credited to the allowance for loan and lease losses.

Table of Contents

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

The Corporation's allowance for loan and lease losses is the accumulation of four components that are calculated based on various independent methodologies. All components of the allowance for loan and lease losses are estimations. Management discusses these estimates earlier in this document under the heading of "Critical Accounting Policies, Judgments and Estimates". The four components are as follows:

Specific Loan Evaluation Component Includes the specific evaluation of larger classified loans and leases

Historical Charge-Off Component Applies a five year historical charge-off rate to pools of non-classified loans and leases

Additional Factors Component The loan portfolio is broken down into multiple homogenous subclassifications upon which multiple factors (such as delinquency trends, economic conditions, loan terms, and regulatory environment) are evaluated resulting in an allowance amount for each of the subclassifications. The sum of these amounts equals the Additional Factors Component.

Unallocated Component This amount represents a general reserve against all loans and leases.

Asset Quality and Analysis of Credit risk

Asset quality remains strong at March 31, 2007 as nonperforming loans as a percentage of total loans were 6 basis points. This compares with 12 basis points at December 31, 2006 and 13 basis points at March 31, 2006. The allowance for loan and lease losses as a percentage of total loans was 1.21% at March 31, 2007 compared with 1.19% at December 31, 2006 and 1.25% at March 31, 2006. The provision for loan and lease losses in the first quarter of 2007 was \$250 thousand, compared to \$154 thousand in the same period last year. 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 Corporation has an experienced underwriting team, the lease portfolio is geographically diverse, and the average customer exposure is less than \$25,000.

Additional factors considered by management during the first quarter of 2007 were national delinquency trends in sub-prime mortgages. The Corporation has no exposure to sub-prime mortgage loans.

Non Performing Assets and Related Ratios

	March 31,	December 31,	March 31,
(dollars in thousands)	2007	2006	2006
Non-accrual loans	\$ 371	\$ 704	\$ 773
Loans 90 days or more past due	46	119	5
Total non performing loans	417	823	778
Other real estate owned (OREO)	561	\$	25
Total non performing assets	\$ 978	\$ 823	\$ 803
Allowance for loan and lease losses to non performing assets	855.4%	986.9%	942.8%
Allowance for loan and lease losses to non performing loans and leases	2,006.2%	986.9%	973.1%

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Non performing loans and leases to total portfolio loans	0.06%	.12%	0.13%
Allowance for loan losses to portfolio loans	1.21%	1.19%	1.25%
Non performing assets to assets	0.12%	0.10%	0.11%
Period end portfolio loans	\$ 691,549	\$ 681,291	\$ 606,578
Average portfolio loans (quarterly average)	\$ 684,870	\$ 669,036	\$ 595,446
Allowance for loan and lease losses	\$ 8,366	\$ 8,122	\$ 7,571

Table of Contents**Summary of Changes in the Allowance For Loan and lease losses**

	Three Months Ended		Year Ended
	March 31,		December 31,
	2007	2006	2006
(dollars in thousands)			
Balance, beginning of period	\$ 8,122	\$ 7,402	\$ 7,402
Charge-offs:			
Consumer	(10)	(10)	(31)
Commercial and industrial			
Real estate			(120)
Total charge-offs	(10)	(10)	(151)
Recoveries:			
Consumer	4	23	34
Commercial and industrial		2	3
Real estate			2
Total recoveries	4	25	39
Net (charge-offs) / recoveries	6	15	(112)
Provision for loan and lease losses	250	154	832
Balance, end of period	\$ 8,366	\$ 7,571	\$ 8,122

NON-INTEREST INCOME**Three months ended March 31, 2007 Compared to March 31, 2006**

Non-interest income for the first quarter of 2007 excluding the \$1.333 million (pre-tax) real estate gain, was \$4.813 million, an increase of \$214,000 or 4.7% over the \$4.599 million in the first quarter of 2006. The primary factor for this increase was first quarter Wealth Division revenue of \$3.287 million which was \$167,000 or 5.4% higher than the same period last year. The Corporation is investing in additional personnel and service enhancements in the Wealth Division with the goal of stronger revenue growth. Wealth Management assets under management and administration were \$2.522 billion at March 31, 2007 compared to \$2.262 billion at March 31, 2006. A slight improvement in mortgage loan sale revenue due to increased sales also contributed to the growth in non-interest income. See the last two paragraphs in the Executive Summary regarding a large Wealth Division customer.

NON-INTEREST EXPENSE**Three months ended March 31, 2007 Compared to March 31, 2006**

Non-interest expense for the first quarter of 2007 was \$8.435 million, an increase of \$590,000 or 7.5% over \$7.845 million in the first quarter of 2006. This increase is due to several factors including staffing costs relating to the leasing company and the West Chester loan production office, annual merit increases, the opening of the Ardmore branch and increased advertising costs due to timing and professional fees, specifically consulting and audit fees. The increase in professional fees is related to the adoption of new accounting standards. The costs of the Wealth Division and Private Banking Group initiatives will be phased in over the second and third quarters of 2007. Fourth quarter 2006 non-interest expense was \$7.846 million.

INCOME TAXES

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Income taxes from operations for the three months ended March 31, 2007 were \$1.861 million compared to \$1.645 million for the same period in 2006. This represents an effective tax rate for the three months ended March 31, 2007 of 31.9% and an effective tax rate of 34.4% for the same period in 2006. The decrease in the effective tax rate is due an immaterial over-accrual of taxes in the fourth quarter of 2006 that was applied against the current quarter's provision.

BALANCE SHEET ANALYSIS

Total assets decreased \$15.8 million or 1.9% from \$826.7 million as of December 31, 2006 to \$810.9 million as of March 31, 2007. This decrease is related to a decline in cash and cash equivalents of \$28.6 million from December 31, 2006 to March 31, 2007. The decrease in cash and cash equivalents is due to the short term inflows of certain deposit accounts at year end 2006. Partially offsetting this decline was an increase in portfolio loans of \$10.2 million or 1.5% from \$681.3 as of December 31, 2006 to \$691.5 million as of March 31, 2007.

Table of Contents

Average loans for the first quarter of 2007 increased \$15.9 million or 2.4% to \$684.9 million compared to \$669.0 million in the fourth quarter of 2006.

The table below compares portfolio loans and leases outstanding at March 31, 2007 and December 31, 2006. The increase in leases of \$9.9 million is the primary reason for the increase in total loans and leases of \$10.2 million. The Corporation continues to focus its business development efforts on building banking relationships with privately held businesses, non-profits, high quality residential builders and owners of commercial real estate.

Total portfolio loans outstanding are detailed by category as follows:

(dollars in millions)	March 31,	December 31,	Change	
	2007	2006	Dollars	Percentage
Real estate loans:				
Commercial mortgage loans	\$ 200.1	\$ 198.4	\$ 1.7	0.9%
Home equity lines and loans	107.5	113.1	(5.6)	(4.9)%
Residential mortgage loans	105.1	103.6	1.5	1.5%
Construction loans	74.3	74.8	(0.5)	(0.7)%
Commercial and industrial loans	179.5	175.3	4.2	2.4%
Consumer loans	8.1	9.1	(1.0)	(11.0)%
Leases	16.9	7.0	9.9	141.4%
Total portfolio loans and leases	\$ 691.5	\$ 681.3	10.2	1.5%
Quarterly average portfolio loans and leases	\$ 684.9	\$ 669.0	15.9	2.4%

Total liabilities declined \$18.9 million from \$744.3 million at December 31, 2006 to \$725.3 million at March 31, 2007. This decline is driven by a decrease in deposits of \$50.2 million or 7.0% over the past three months to \$664.3 million at March 31, 2007 from \$714.5 million at December 31, 2006 partially offset by an increase in borrowed funds of \$30 million. The decrease in deposits is primarily due to the competitive environment for retaining and gathering deposits and the larger deposit inflows of approximately \$35.0 million that temporarily boosted year-end deposits. The decline is concentrated in savings, NOW and market rate accounts which decreased \$16.4 million or 5.5% to \$279.1 million from \$295.5 million at December 31, 2006.

Average deposits for the first quarter of 2007 increased \$4.4 million or 0.7% to \$654.2 million compared to \$649.8 million in the fourth quarter of 2006.

Deposits and borrowings at March 31, 2007 and December 31, 2006 are as follows:

(dollars in millions)	March 31,	December 31,	Change	
	2007	2006	Dollars	Percentage
Non-interest bearing demand	\$ 152.9	\$ 198.5	\$ (45.6)	(23.0)%
Savings, NOW and market rate accounts	279.1	295.5	(16.4)	(5.5)%
Non-wholesale time deposits	167.0	170.5	(3.5)	(2.0)%
Time deposits from brokers	30.3	20.0	10.3	51.5%
Time deposits from public fund sources	35.0	30.0	5.0	16.7%
Total deposits	664.3	714.5	(50.2)	(7.0)%
Fed funds purchased	15.0		15.0	100.0%
FHLB advances	30.0	15.0	15.0	100.0%

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Borrowed funds	45.0	15.0	30.0	200.0%
Total deposits and borrowings	\$ 709.3	\$ 729.5	\$ (20.2)	(2.8)%
Quarterly average deposits	\$ 654.2	\$		