BRYN MAWR BANK CORP
Form 10-K
March 10, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from __________ to __________

Commission file number 001-35746.

BRYN MAWR BANK CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2434506**
(State of other jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
801 Lancaster Avenue, Bryn Mawr, Pennsylvania	**19010**
(Address of principal executive offices)	**(Zip Code)**

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock ($1 par value)	**The Nasdaq Stock Market LLC**

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

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

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller Reporting Company
Indicate by checkmark whether the Registrant is a shell company (as defined by Rule 126-2 of the Exchange Act):

Yes No

The aggregate market value of shares of common stock held by non-affiliates of Registrant (including fiduciary accounts administered by affiliates) was $483,647,309 on June 30, 2016 based on the price at which our common stock was last sold on that date.*

As of March 7, 2017, there were 16,969,451 shares of common stock outstanding.

Documents Incorporated by Reference: Portions of the Definitive Proxy Statement of Registrant to be filed with the Commission pursuant to Regulation 14A with respect to the Registrant's Annual Meeting of Shareholders to be held on April 20, 2017 ("2017 Proxy Statement"), as indicated in Parts I and II, are incorporated into this Form 10-K by reference.

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

Table of Contents

Form 10-K

Bryn Mawr Bank Corporation

Index

Table of Contents

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 Bryn Mawr Bank Corporation (the "Corporation") to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements include statements with respect to the Corporation's financial goals, business plans, business prospects, credit quality, credit risk, reserve adequacy, liquidity, origination and sale of residential mortgage loans, mortgage servicing rights, the effect of changes in accounting standards, and market and pricing trends loss. The words The words "may", "would", "could", "will", "likely", "expect," "anticipate," "intend", "estimate", "plan", "forecast", "project" and "believe" and similar expressions are intended to identify such forward-looking statements. The Corporation's actual results may differ materially from the results anticipated by the forward-looking statements due to a variety of factors, including without limitation:

- *local, regional, national and international economic conditions and the impact they may have on us and our customers and our assessment of that impact;*
- *our need for capital;*
- *lower demand for our products and services and lower revenues and earnings could result from an economic recession;*
- *lower earnings could result from other-than-temporary impairment charges related to our investment securities portfolios or other assets;*
- *changes in monetary or fiscal policy, or existing statutes, regulatory guidance, legislation or judicial decisions that adversely affect our business, including changes in federal income tax or other tax regulations;*
- *changes in the level of non-performing assets and charge-offs;*
- *changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;*
- *other changes in accounting requirements or interpretations;*
- *the accuracy of assumptions underlying the establishment of provisions for loan and lease losses and estimates in the value of collateral, and various financial assets and liabilities;*
- *inflation, securities market and monetary fluctuations;*
- *changes in the securities markets with respect to the market values of financial assets and the stability of particular securities markets;*
- *changes in interest rates, spreads on interest-earning assets and interest-bearing liabilities, and interest rate sensitivity;*
- *prepayment speeds, loan originations and credit losses;*
- *changes in the value of our mortgage servicing rights;*
- *sources of liquidity and financial resources in the amounts, at the times and on the terms required to support our future business;*
- *legislation or other governmental action affecting the financial services industry as a whole, us or our subsidiaries individually or collectively, including changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which we must comply;*

- *results of examinations by the Federal Reserve Board, including the possibility that such regulator may, among other things, require us to increase our allowance for loan losses or to write down assets;*
- *our common stock outstanding and common stock price volatility;*
- *fair value of and number of stock-based compensation awards to be issued in future periods;*
- *with respect to mergers and acquisitions, our business and the acquired business will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected;*
- *revenues following the completion of a merger or acquisition may be lower than expected;*
- *deposit attrition, operating costs, customer loss and business disruption following a merger or acquisition, including, without limitation, difficulties in maintaining relationships with employees, may be greater than expected;*
- *material differences in the actual financial results of our merger and acquisition activities compared with expectations, such as with respect to the full realization of anticipated cost savings and revenue enhancements within the expected time frame;*
- *our success in continuing to generate new business in our existing markets, as well as their success in identifying and penetrating targeted markets and generating a profit in those markets in a reasonable time;*
- *our ability to continue to generate investment results for customers and the ability to continue to develop investment products in a manner that meets customers' needs;*
- *changes in consumer and business spending, borrowing and savings habits and demand for financial services in the relevant market areas;*
- *rapid technological developments and changes;*

Table of Contents

- *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 our market areas and elsewhere including institutions operating locally, regionally, nationally and internationally together with such competitors offering banking products and services by mail, telephone, computer and the internet;*
- *our ability to continue to introduce competitive new products and services on a timely, cost-effective basis and the mix of those products and services;*
- *containing costs and expenses;*
- *protection and validity of intellectual property rights;*
- *reliance on large customers;*
- *technological, implementation and cost/financial risks in contracts;*
- *the outcome of pending and future litigation and governmental proceedings;*
- *any extraordinary events (such as natural disasters, acts of terrorism, wars or political conflicts);*
- *ability to retain key employees and members of senior management;*
- *the ability of key third-party providers to perform their obligations to us and our subsidiaries; and*
- *the need for capital, ability to control operating costs and expenses, and to manage loan and lease delinquency rates;*
- *the credit risks of lending activities and overall quality of the composition of acquired loan, lease and securities portfolio;*
- *the inability of key third-party providers to perform their obligations to us;*
- *risks related to our pending merger with Royal Bancshares of Pennsylvania, Inc. ("RBPI"), including, but not limited to: the risk that required regulatory, shareholder or other approvals are not obtained or other closing conditions are not satisfied in a timely manner or at all; that prior to the completion of the transaction or thereafter, the Corporation's and RBPI's respective businesses may not perform as expected due to transaction-related uncertainty or other factors; that the parties are unable to successfully implement integration strategies; the inability of RBPI to cash out outstanding warrants to purchase RBPI Class A Common Stock; reputational risks and the reaction of the companies' customers to the transaction; diversion of management time on merger-related issues; the integration of acquired business with the Corporation taking longer than anticipated or being more costly to complete; that the anticipated benefits of the merger, including any anticipated cost savings or strategic gains may be significantly harder to achieve or take longer than anticipated or fail to be achieved; and*
- *our success in managing the risks involved in the foregoing.*

All written or oral forward-looking statements attributed to the Corporation are expressly qualified in their entirety by use of the foregoing cautionary statements. All forward-looking statements included in this Report and the documents incorporated by reference herein are based upon the Corporation's beliefs and assumptions as of the date of this Report. The Corporation assumes no obligation to update any forward-looking statement. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this Report or incorporated documents might not occur and you should not put undue reliance on any forward-looking statements.

Additional Information About the Merger with RBPI and Where to Find It

In connection with the proposed merger transaction between the Corporation and RBPI, the Corporation will file with the Securities and Exchange Commission a Registration Statement on Form S-4 that will include a Proxy Statement of RBPI, and a Prospectus of the Corporation, as well as other relevant documents concerning the proposed transaction. Shareholders are urged to read the Registration Statement and the Proxy Statement/Prospectus regarding the merger with RBPI when it becomes available and any other relevant documents filed with the SEC, as well as any amendments or supplements to those documents, because they will contain important information.

A free copy of the Proxy Statement/Prospectus, as well as other filings containing information about the Corporation and RBPI, may be obtained at the SEC's Internet site (http://www.sec.gov).

The Corporation and RBPI and certain of their directors and executive officers may be deemed to be participants in the solicitation of proxies from the shareholders of RBPI in connection with the proposed merger. Information about the directors and executive officers of the Corporation is set forth in the proxy statement for the Corporation's 2017 annual meeting of shareholders, expected to be filed with the SEC on a Schedule 14A on March 10, 2017. Information about the directors and executive officers of RBPI is set forth in the proxy statement for RBPI 2016 annual meeting of shareholders, as filed with the SEC on a Schedule 14A on March 17, 2016. Additional information regarding the interests of those participants and other persons who may be deemed participants in the transaction may be obtained by reading the Proxy Statement/Prospectus regarding the proposed merger when it becomes available. Free copies of this document may be obtained as described in the preceding paragraph.

Table of Contents

PART I

ITEM 1. BUSINESS

GENERAL

The Bryn Mawr Trust Company (the "Bank") received its Pennsylvania banking charter in 1889 and is a member of the Federal Reserve System. In 1986, Bryn Mawr Bank Corporation (the "Corporation") was formed and on January 2, 1987, the Bank became a wholly-owned subsidiary of the Corporation. The Bank and Corporation are headquartered in Bryn Mawr, Pennsylvania, a western suburb of Philadelphia. The Corporation and its subsidiaries offer a full range of personal and business banking services, consumer and commercial loans, equipment leasing, mortgages, insurance and wealth management services, including investment management, trust and estate administration, retirement planning, custody services, and tax planning and preparation from 25 full-service branches, eight limited-hour retirement community offices, one limited-service branch, five wealth offices and a full-service insurance agency located throughout Montgomery, Delaware, Chester, Philadelphia and Dauphin counties of Pennsylvania and New Castle county in Delaware. The Corporation's common stock trades on the NASDAQ Stock Market ("NASDAQ") under the symbol BMTC.

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

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

WEBSITE DISCLOSURES

The Corporation files with the SEC and makes available, free of charge, through its website, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A, and all amendments to those reports as soon as reasonably practicable after the reports are electronically filed with the SEC. These reports can be obtained on the Corporation's website at *www.bmtc.com* by following the link, "About BMT," followed by "Investor Relations." The information contained on or connected to our website is not incorporated by reference into this Annual Report on Form 10-K. Further copies of these reports are located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding our filings, at www.sec.gov.

OPERATIONS

- **Bryn Mawr Bank Corporation**

The Corporation has no active staff as of December 31, 2016. The Corporation is the sole shareholder of the stock of the Bank. Additionally, the Corporation performs several functions including shareholder communications, shareholder recordkeeping, the distribution of dividends and the periodic filing of reports and payment of fees to NASDAQ, the SEC and other regulatory agencies.

As of December 31, 2016, the Corporation and its subsidiaries had 494 full time and 50 part time employees, totaling 519 full time equivalent staff.

ACTIVE SUBSIDIARIES OF THE CORPORATION

The Corporation has three active subsidiaries which provide various services as described below:

- **Lau Associates**

Lau Associates LLC, a registered investment advisor, is an independent, family wealth office serving high net worth individuals and families, with special expertise in planning intergenerational inherited wealth. Lau Associates employed 13 full time employees as of December 31, 2016, which are included in the Corporation's employment numbers. Lau Associates LLC is a wholly-owned subsidiary of the Corporation.

1

Table of Contents

- **The Bryn Mawr Trust Company of Delaware**

The Bryn Mawr Trust Company of Delaware ("BMTC-DE") is a limited-purpose trust company located in Greenville, DE and has the ability to be named and serve as a corporate fiduciary under Delaware law. BMTC-DE employed seven full-time and two part time employees as of December 31, 2016. BMTC-DE employees are included in the Corporation's employment numbers. Being able to serve as a corporate fiduciary under Delaware law is advantageous as Delaware statutes are widely recognized as being favorable with respect to the creation of tax-advantaged trust structures, LLCs and related wealth transfer vehicles for families and individuals throughout the United States. BMTC-DE is a wholly-owned subsidiary of the Corporation.

- **The Bryn Mawr Trust Company**

The Bank is engaged in commercial and retail banking business, providing basic banking services, including the acceptance of demand, time and savings deposits and the origination of commercial, real estate and consumer loans and other extensions of credit including leases. The Bank also provides a full range of wealth management services including trust administration and other related fiduciary services, custody services, investment management and advisory services, employee benefit account and IRA administration, estate settlement, tax services, financial planning and brokerage services. As of December 31, 2016, the market value of assets under management, administration, supervision and asset management/brokerage by the Bank's Wealth Management Division was $11.3 billion. The Bank's employees are included in the Corporation's employment numbers above.

The Bank presently operates 25 full-service branches, eight limited-hour retirement community offices, one limited-service branch and three wealth management offices located throughout Montgomery, Delaware, Chester, Philadelphia and Dauphin counties of Pennsylvania. See the section titled "COMPETITION" later in this item for additional information.

ACTIVE SUBSIDIARIES OF THE BANK

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

Key Capital Mortgage, Inc.

Key Capital Mortgage, Inc. ("KCMI") is a wholly-owned subsidiary of the Bank, located in Media, Pennsylvania, which was established on October 1, 2015. KCMI specializes in providing non-traditional commercial mortgage loans to small businesses throughout the United States. As of December 31, 2016, KCMI employed six full-time employees which are included in the Corporation's employment numbers above.

- **Powers Craft Parker & Beard, Inc.**

Powers Craft Parker & Beard, Inc. ("PCPB") is a wholly-owned subsidiary of the Bank, headquartered in Rosemont, Pennsylvania. On October 1, 2014, the Bank acquired 100% of the stock of PCPB and merged the entity with and into its existing full-service insurance agency, Insurance Counsellors of Bryn Mawr, Inc. ("ICBM"). The surviving entity operates under the PCPB name. On April 1, 2015, the Bank acquired the Robert J. McAllister Agency, Inc. ("RJM"), an insurance brokerage headquartered in Rosemont, Pennsylvania. RJM was subsequently merged into PCPB. PCPB is a full-service insurance agency, through which the Bank offers insurance and related products and services to its customer base. This includes casualty, property and allied insurance lines, as well as life insurance, annuities, medical insurance and accident and health insurance for groups and individuals.

As of December 31, 2016, PCPB employed 14 full-time employees, of whom 13 are licensed insurance agents, along with two part-time employees, both of whom are licensed insurance agents. PCPB employees are included in the Corporation's employment numbers above.

- **Bryn Mawr Equipment Finance, Inc.**

Bryn Mawr Equipment Finance, Inc. ("BMEF"), a wholly-owned subsidiary of the Bank, is a Delaware corporation registered to do business in Pennsylvania. BMEF is a small-ticket equipment financing company servicing customers nationwide from its Montgomery County, Pennsylvania location. BMEF had nine employees as of December 31, 2016. BMEF employees are included in the Corporation's employment numbers above.

Table of Contents

BUSINESS COMBINATIONS

The Corporation and its subsidiaries engaged in the following business combinations since January 1, 2012:

Royal Bancshares of Pennsylvania, Inc. (pending)

On January 30, 2017, the Corporation entered into a definitive Agreement and Plan of Merger to acquire Royal Bancshares of Pennsylvania, Inc. (“RBPI”), parent company of Royal Bank America (“RBA”), in a transaction with an aggregate value of $127.7 million (the “Acquisition”). In connection with the Acquisition, RBPI will merge with and into the Corporation and RBA will merge with and into the Bank. The Acquisition, which is expected to add approximately $602 million in loans and $630 million in deposits (based on unaudited December 31, 2016 financial information), strengthens the Corporation’s position as the largest community bank in Philadelphia’s western suburbs and, based on deposits, ranks it as the eighth largest community bank headquartered in Pennsylvania. The Acquisition, which will expand the Corporation's distribution network by providing entry into the new markets of New Jersey and Berks County, Pennsylvania, and a new physical presence in Philadelphia County, Pennsylvania is expected to close during the third quarter of 2017.

Robert J. McAllister Agency, Inc.

On April 1, 2015, the acquisition of RJM, an insurance brokerage headquartered in Rosemont, Pennsylvania, was completed. Consideration paid totaled $1.0 million, of which $500 thousand was paid at closing, one contingent payment of $85 thousand (out of a maximum of $100 thousand) was paid during the second quarter of 2016 and four remaining contingent cash payments, not to exceed $100 thousand each, will be payable on each of March 31, 2017, March 31, 2018, March 31, 2019, and March 31, 2020, subject to the attainment of certain revenue targets during the related periods. The acquisition enhanced PCPB’s ability to offer comprehensive insurance solutions to both individual and business clients.

Continental Bank Holdings, Inc.

On January 1, 2015, the merger of Continental Bank Holdings, Inc. (“CBH”) with and into the Corporation (the “CBH Merger”), and the merger of Continental Bank with and into the Bank, were completed. Consideration paid totaled $125.1 million, comprised of 3,878,383 shares (which included fractional shares paid in cash) of the Corporation’s common stock, the assumption of options to purchase Corporation common stock valued at $2.3 million and $1.3 million for the cash-out of certain warrants. The Merger initially added $424.7 million of loans, $181.8 million of investments, $481.7 million of deposits and ten new branches. The acquisition of CBH enabled the Corporation to expand its footprint into a significant portion of Montgomery County, Pennsylvania.

Powers Craft Parker and Beard, Inc.

On October 1, 2014, the acquisition of PCPB, an insurance brokerage headquartered in Rosemont, Pennsylvania, was completed. The consideration paid by the Corporation was $7.0 million, of which $5.4 million was paid at closing and two of three contingent payments, of $542 thousand each, were paid during the fourth quarter of 2015 and 2016. The remaining $542 thousand consists of one contingent payment, not to exceed $542 thousand. The payment is subject to the attainment of certain revenue targets during the applicable period. The addition enabled the Corporation to offer a full range of insurance products to both individual and business clients.

First Bank of Delaware

On November 17, 2012, the acquisition of $70.3 million of deposits, $76.6 million of loans and a branch location from First Bank of Delaware (“FBD”), by the Corporation was completed. The consideration paid by the Corporation totaled $10.6 million cash, paid at closing. The transaction, which was accounted for as a business combination, enabled the Corporation to expand its banking arm into the Delaware market by opening its first full-service branch there, complementing its existing wealth management operations in the state.

Davidson Trust Company

On May 15, 2012, the acquisition of Davidson Trust Company (“DTC”) by the Corporation was completed. The consideration paid by the Corporation totaled $10.5 million, of which $8.4 million was paid in cash, at closing and the remaining $2.1 million was paid in equal installments on November 14, 2012, May 14, 2013 and November 14, 2013. The transaction was accounted for as a business combination. The acquisition of DTC initially increased the Corporation’s wealth management division assets under management by $1.0 billion. The structure of the Corporation’s existing wealth management segment allowed for the immediate integration of DTC and was able to take advantage of the various synergies that exist between the two companies.

SOURCES OF THE CORPORATION'S REVENUE

Continuing Operations

See Note 29, "Segment Information," in the Notes to the Consolidated Financial Statements located in this Annual Report on Form 10-K for additional information. The Corporation had no discontinued operations in 2014, 2015 or 2016.

FINANCIAL INFORMATION ABOUT SEGMENTS

The financial information concerning the Corporation's business segments is incorporated by reference to this Annual Report on Form 10-K in the section captioned Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and Note 29, "Segment Information," in the Notes to Consolidated Financial Statements.

COMPETITION

The Corporation and its subsidiaries, including the Bank, compete for deposits, loans, wealth management and insurance services in Delaware, Montgomery, Chester, Dauphin and Philadelphia counties in Pennsylvania and New Castle County in Delaware. The Corporation has a significant presence in the Philadelphia suburbs along the Route 30 corridor, also known as the "Main Line". The Corporation has 25 full-service branches, eight limited-hour retirement community offices, one limited-service branch, one insurance agency and five wealth management offices.

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

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

The acquisition of Lau Associates in July 2008 and the formation of BMTC-DE allowed the Corporation to establish a presence in the State of Delaware, where it competes for wealth management business. The November 2012 acquisition of certain loan and deposit accounts and a branch location from First Bank of Delaware enabled the Corporation to further expand its banking segment in the greater Wilmington, Delaware area.

The acquisition of First Keystone Financial, Inc. ("FKF") in 2010 expanded the Corporation's footprint significantly into Delaware County, Pennsylvania, and the acquisition the Private Wealth Management Group of the Hershey Trust Company ("PWMG") in 2011 enabled the Wealth Management Division to extend into central Pennsylvania by continuing to operate the former PWMG offices located in Hershey, Pennsylvania. The May 2012 acquisition of DTC allowed the Corporation to further expand its range of services and bring deeper market penetration in our core market area. The October 2014 acquisition of PCPB and the April 2015 acquisition of RJM enabled the Bank to expand its range of insurance solutions to both individuals as well as business clients. The January 2015 merger with CBH expanded the Corporation's reach well into Montgomery County Pennsylvania, and gave the Bank the opportunity to have a branch office in the City of Philadelphia.

The Bank's newest subsidiary, KCMI, which was established on October 1, 2015 enables the Corporation to compete on a national level for the specialized lending market that focuses on non-traditional small business borrowers with well-established businesses. In addition, BMEF competes on a national level for its equipment leasing customers.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

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

Table of Contents

SUPERVISION AND REGULATION

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

- **Bank Holding Company Regulation**

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

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

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

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

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

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

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

- **Federal Reserve Board and Pennsylvania Department of Banking and Securities Regulation**

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

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

The regulations of the Department of Banking restrict the amount of dividends that can be paid to the Corporation by the Bank. Payment of dividends is restricted to the amount of the Bank’s 2016 net income plus its net retained earnings for the previous two years. As of December 31, 2016, this amount was $15.9 million. However, the amount of dividends paid by the Bank cannot reduce capital levels below levels that would cause the Bank to be less than adequately capitalized. The payment of dividends by the Bank to the Corporation is the source on which the Corporation currently depends to pay dividends to its shareholders.

Table of Contents

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

On October 24, 2012, Pennsylvania enacted three new laws known as the “Banking Law Modernization Package,” all of which became effective on December 24, 2012. The intended goal of the new law, which applies to the Bank, is to modernize Pennsylvania’s banking laws and to reduce regulatory burden at the state level where possible, given the increased regulatory demands at the federal level as described below.

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

The new law also sets a new standard of care for bank officers and directors, applying the same standard that exists for non-banking corporations in Pennsylvania. The standard is one of performing duties in good faith, in a manner reasonably believed to be in the best interests of the institutions and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. Directors may rely in good faith on information, opinions and reports provided by officers, employees, attorneys, accountants, or committees of the board, and an officer may not be held liable simply because he or she served as an officer of the institution.

- **Deposit Insurance Assessments**

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

In addition to deposit insurance assessments, banks are subject to assessments to pay the interest on Financing Corporation bonds. The Financing Corporation was created by Congress to issue bonds to finance the resolution of failed thrift institutions. The FDIC sets the Financing Corporation assessment rate every quarter. The Financing Corporation assessment for the fourth quarter of 2016 was an annual rate of 0.56 basis points. Payments of the FICO assessment during the twelve months ended December 31, 2016 totaled $154 thousand.

- **Government Monetary Policies**

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

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

- **Safety and Soundness**

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

Table of Contents

- **Capital Adequacy**

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

Minimum Capital Ratios: The risk-based guidelines require all banks to maintain three “risk-weighted assets” ratios. The first is a minimum ratio of total capital (“Tier 1” and “Tier 2” capital) to risk-weighted assets equal to 8.00%; the second is a minimum ratio of “Tier 1” capital to risk-weighted assets equal to 6.00%; and the third is a minimum ratio of “Common Equity Tier 1” capital to risk-weighted assets equal to 4.5%. Assets are assigned to five risk categories, with higher levels of capital being required for the categories perceived as representing greater risk. In making the calculation, certain intangible assets must be deducted from the capital base. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets.

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

The “leverage” ratio rules require banks which are rated the highest in the composite areas of capital, asset quality, management, earnings, liquidity and sensitivity to market risk to maintain a ratio of “Tier 1” capital to “adjusted total assets” (equal to the bank’s average total assets as stated in its most recent quarterly Call Report filed with its primary federal banking regulator, minus end-of-quarter intangible assets that are deducted from Tier 1 capital) of not less than 4.00%.

For purposes of the capital requirements, “Tier 1” or “core” capital is defined to include common stockholders’ equity and certain noncumulative perpetual preferred stock and related surplus. “Tier 2” or “qualifying supplementary” capital is defined to include a bank’s allowance for loan and lease losses up to 1.25% of risk-weighted assets, plus certain types of preferred stock and related surplus, certain “hybrid capital instruments” and certain term subordinated debt instruments. “Common Equity Tier 1” capital is defined as the sum of common stock instruments and related surplus net of treasury stock, retained earnings, accumulated other comprehensive income, and qualifying minority interests.

In addition to the capital requirements discussed above, banks are required to maintain a "capital conservation buffer" above the regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital.

The capital conservation buffer is being phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019:

(i) a common equity Tier 1 capital ratio of 7.0%;
(ii) a Tier 1 capital ratio of 8.5%; and
(iii) a total capital ratio of 10.5%.

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

The Bank's and the Corporation's regulators have the power to impose an additional buffer, the "countercyclical buffer," of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, this buffer is only applicable to "advanced approach banks" (i.e., banks with $250 billion or more in total assets or $10 billion or more in total foreign exposures), which currently excludes the Corporation and the Bank. The capital requirement rules, which were finalized in July 2013 implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that no longer qualify as Tier 1 capital, some of which are being phased out over time. However, small depository institution holding companies with less than $15 billion in total assets as of December 31, 2009 (which includes the Corporation) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

In addition, smaller banking institutions (less than $250 billion in consolidated assets) were granted an opportunity to make a one-time election to opt out of including most elements of accumulated other comprehensive income in regulatory capital. Importantly, the opt-out excludes from regulatory capital not only unrealized gains and losses on available-for-sale debt securities, but also accumulated net gains and losses on cash-flow hedges and amounts attributable to defined benefit postretirement plans. The Corporation elected to opt-out, and indicated its election on the Call Report filed after January 1, 2015.

7

Table of Contents

Prompt Corrective Action

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

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

(i) a new common equity Tier 1 capital ratio of 6.5%;
(ii) a Tier 1 capital ratio of 8% (increased from 6%);
(iii) a total capital ratio of 10% (unchanged from current rules); and
(iv) a Tier 1 leverage ratio of 5% (increased from 4%).

An undercapitalized institution is required to file a written capital restoration plan, along with a performance guaranty by its holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on the payment of dividends, a limitation on asset growth and expansion, and in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain “management fees” to any “controlling person”. Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including increased reporting burdens and regulatory monitoring, a limitation on the institution’s ability to make acquisitions, open new branch offices, or engage in new lines of business, obligations to raise additional capital, restrictions on transactions with affiliates, and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed to be “critically undercapitalized” and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership. The Bank is currently regarded as “well capitalized” for regulatory capital purposes. See Note 26 in the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for more information regarding the Bank’s and Corporation’s regulatory capital ratios.

Gramm-Leach-Bliley Act

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

The GLB Act amended the Glass-Steagall Act to allow new “financial holding companies” (“FHC”) to offer banking, insurance, securities and other financial products to consumers. Specifically, the GLB Act amends section 4 of the Act in order to provide for a framework for the engagement in new financial activities. A bank holding company may elect to become a financial holding company if all its subsidiary depository institutions are well-capitalized and well-managed. If these requirements are met, a bank holding company may file a certification to that effect with the Federal Reserve Board and declare that it elects to become a FHC. After the certification and declaration is filed, the FHC may engage either de novo or through an acquisition in any activity that has been determined by the Federal Reserve Board to be financial in nature or incidental to such financial activity. Bank holding companies may engage in financial activities without prior notice to the Federal Reserve Board if those activities qualify under the new list in section 4(k) of the Act. However, notice must be given to the Federal Reserve Board, within 30 days after the FHC has commenced one or more of the financial activities. The Corporation has not elected to become an FHC at this time.

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

- **Community Reinvestment Act**

The Community Reinvestment Act requires banks to help serve the credit needs of their communities, including providing credit to low and moderate income individuals and areas. Should the Bank fail to serve adequately the communities it serves, potential penalties may include regulatory denials to expand branches, relocate, add subsidiaries and affiliates, expand into new financial activities and merge with or purchase other financial institutions.

- **Privacy of Consumer Financial Information**

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

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

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

- **Consumer Protection Rules – Sale of Insurance Products**

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

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

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

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

- **Sarbanes-Oxley Act**

The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") addresses, among other matters, increased disclosures; audit committees; certification of financial statements by the principal executive officer and the principal financial officer; evaluation by management of our disclosure controls and procedures and our internal control over financial reporting; auditor reports on our internal control over financial reporting; forfeiture of bonuses and profits made by directors and senior officers in the twelve (12) month period covered by restated financial statements; a prohibition on insider trading during Corporation stock blackout periods; disclosure of off-balance sheet transactions; a prohibition applicable to companies, other than federally insured financial institutions, on personal loans to their directors and officers; expedited filing of reports concerning stock transactions by a company's directors and executive officers; the formation of a public accounting oversight board; auditor independence; and increased criminal penalties for violation of certain securities laws.

- **USA PATRIOT Act of 2001**

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

- **Government Policies and Future Legislation**

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

With the 2016 U.S. presidential election resulting in a new President and a new political party controlling the Executive Branch of the Federal Government, the new administration may bring changes to the U.S. financial services industry that we cannot now predict. Public comments by President Donald J. Trump may suggest his intent to change policies and regulations that implement current federal law, including those implementing the Dodd-Frank Act. At this point we are unable to determine what impact the Trump Administration’s policy changes might have on the Corporation or the Bank.

Table of Contents

- **Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”)**

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

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

As discussed earlier, the Dodd-Frank Act requires the Federal Reserve Board to establish minimum consolidated capital requirements for bank holding companies that are as stringent as those required for insured depository institutions; the components of Tier 1 capital are restricted to capital instruments that are considered to be Tier 1 capital for insured depository institutions. In addition, the proceeds of trust preferred securities are excluded from Tier 1 capital unless (i) such securities are issued by bank holding companies with assets of less than $500 million or (ii) such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than $15 billion of assets.

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

The Dodd-Frank Act made many other changes in banking regulation. These include allowing depository institutions, for the first time, to pay interest on business checking accounts, requiring originators of securitized loans to retain a percentage of the risk for transferred loans, establishing regulatory rate-setting for certain debit card interchange fees and establishing a number of reforms for mortgage originations. Effective October 1, 2011, the debit-card interchange fee was capped at $0.21 per transaction, plus an additional 5 basis point charge to cover fraud losses. These fees are much lower than the current market rates. The regulation only impacts banks with assets above $10.0 billion.

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

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

ITEM 1A. RISK FACTORS

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

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

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

Table of Contents

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

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

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

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

Economic troubles may negatively affect our leasing business

The Corporation's leasing business which began operations in September 2006, consists of nation-wide leasing various types of equipment to businesses with an average original equipment cost of approximately $24 thousand per lease. Continued economic sluggishness may result in higher credit losses than we would experience in our traditional lending business, as well as potential increases in state regulatory burdens such as state income taxes, personal property taxes and sales and use taxes.

A general economic slowdown could impact Wealth Management Division revenues

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

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

Managing or servicing assets with reasonable prudence in accordance with the terms of governing documents and applicable laws is important to client satisfaction, which in turn is important to the earnings and growth of our investment businesses. Failure to comply with these standards, adequately manage these risks or manage the differing interests often involved in the exercise of fiduciary responsibilities could also result in liability.

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

All borrowers carry the potential to default and our remedies to recover may not fully satisfy money previously loaned. We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, which represents the Corporation’s best estimate of probable credit losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of the Corporation, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance for loan losses reflects the Corporation’s continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic conditions; and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks using existing qualitative and quantitative information, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of additional loan charge-offs, based on judgments different than those of the Corporation. An increase in the allowance for loan losses results in a decrease in net income, and possibly risk-based capital, and may have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

There is no assurance that we will be successful in overcoming these risks or any other problems encountered in connection with pending or potential acquisitions. Our inability to overcome these risks could have an adverse effect on our levels of reported net income, ROE and ROA, and our ability to achieve our business strategy and maintain our market value.

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

The Corporation originates, sells and services residential mortgage loans. Changes in interest rates and pricing decisions by our loan competitors affect demand for the Corporation’s residential mortgage loan products, the revenue realized on the sale of loans and revenues received from servicing such loans for others, ultimately reducing the Corporation’s net income. New regulations, increased regulatory reviews, and/or changes in the structure of the secondary mortgage markets which the Corporation utilizes to sell mortgage loans may be introduced and may increase costs and make it more difficult to operate a residential mortgage origination business.

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

The Corporation recognizes the need to grow both wholesale and non-wholesale funding sources to support earning asset growth and to provide appropriate liquidity. The Corporation’s asset growth over the past few years has been funded with various forms of wholesale funding which is defined as wholesale deposits (primarily certificates of deposit) and borrowed funds (FHLB advances, Federal advances and Federal fund line borrowings). Wholesale funding at December 31, 2016 represented approximately 18.0% of total funding compared to 17.9% at December 31, 2015 and 21.5% at December 31, 2014. Wholesale funding is subject to certain practical limits such as the FHLB’s Maximum Borrowing Capacity and the Corporation’s liquidity targets. Additionally, regulators might consider wholesale funding beyond certain points to be imprudent and might suggest that future asset growth be reduced or halted.

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

The amount loaned to us is generally dependent on the value of the collateral pledged and the Corporation’s financial condition. These lenders could reduce the percentages loaned against various collateral categories, eliminate certain types of collateral and otherwise modify or even terminate their loan programs, particularly to the extent they are required to do so because of capital adequacy or other balance sheet concerns, or if disruptions in the capital markets occur. Any change or termination of our borrowings from the FHLB, the Federal Reserve or correspondent banks may have an adverse effect on our liquidity and profitability.

Table of Contents

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

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

- announcements of developments related to our business, any of our competitors or the financial services industry in general;
- fluctuations in our results of operations;
- sales of substantial amounts of our securities into the marketplace;
- general conditions in our markets or the worldwide economy;
- a shortfall in revenues or earnings compared to securities analysts' expectations;
- changes in analysts' recommendations or projections;
- our announcement of new acquisitions or other projects; and
- compliance with regulatory changes.

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

The Corporation and the Bank are supervised by the Federal Reserve Bank, the Pennsylvania Department of Banking and Securities and the State of Delaware. Accordingly, the Corporation, the Bank and our subsidiaries are subject to extensive federal and state legislation, regulation and supervision that govern almost all aspects of our business operations, which are primarily designed to protect consumers, depositors and the government's deposit insurance funds, and to accomplish other governmental policy objectives such as combating terrorism. That regulatory framework is not designed to protect shareholders. We are required to comply with a variety of laws and regulations, including the Bank Secrecy Act, the USA PATRIOT Act, the Gramm Leach Bliley Act, the Equal Credit Opportunity Act, real estate-secured consumer lending regulations (such as Truth-in-Lending), Real Estate Settlement Procedures Act regulations, and licensing and registration requirements for mortgage originators. Recent and potential future changes in laws and regulations, escalating regulatory expectations and heightened regulatory attention to mortgage and foreclosure-related activities and exposures and other business practices require that we devote substantial management attention and resources to regulatory compliance. While the Corporation has policies and procedures designed to ensure compliance with regulatory requirements, there is risk that the Corporation and the Bank may be determined not to have complied with applicable requirements. Any failure by the Corporation or the Bank to comply with these requirements, even if such failure was unintentional or inadvertent, could result in adverse action to be taken by regulators, including through formal or informal supervisory enforcement actions, and could result in the assessment of fines and penalties. In some circumstances, additional negative consequences also may result from regulatory action, including restrictions on the Corporation’s business activities, acquisitions and other growth initiatives. The occurrence of one or more of these events may have a material adverse effect on our business and reputation.

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

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

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

changes to regulatory capital requirements;

exclusion of hybrid securities, including trust preferred securities, issued on or after May 19, 2010 from tier 1 capital;

creation of new government regulatory agencies (such as the Financial Stability Oversight Council, which will oversee systemic risk, and the Consumer Financial Protection Bureau, which will develop and enforce rules for bank and non-bank providers of consumer financial products);

potential limitations on federal preemption;

changes to deposit insurance assessments;

regulation of debit interchange fees we earn;

Table of Contents

- changes in retail banking regulations, including potential limitations on certain fees we may charge; and

- changes in regulation of consumer mortgage loan origination and risk retention.

In addition, the Dodd-Frank Act restricts the ability of banks to engage in certain proprietary trading or to sponsor or invest in private equity or hedge funds, commonly referred to as the Volker Rule. The Dodd-Frank Act also contains provisions designed to limit the ability of insured depository institutions, their holding companies and their affiliates to conduct certain swaps and derivatives activities and to take certain principal positions in financial instruments.

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

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

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

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

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

With the 2016 U.S. presidential election resulting in a new President and a new political party controlling the Executive Branch of the Federal Government, the new administration may bring changes to the U.S. financial services industry that we cannot now predict. Public comments by President Donald J. Trump may suggest his intent to change policies and regulations that implement current federal law, including those implementing the Dodd-Frank Act. At this point we are unable to determine what impact the Trump Administration's policy changes might have on the Corporation or its subsidiaries.

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

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

Our ability to realize our deferred tax asset may be reduced, which may adversely impact results of operations

Realization of a deferred tax asset requires us to exercise significant judgment and is inherently uncertain because it requires the prediction of future occurrences. The deferred tax asset may be reduced in the future if estimates of future income or our tax planning strategies do not support the amount of the deferred tax asset. If it is determined that a valuation allowance of its deferred tax asset is necessary, the Corporation may incur a charge to earnings. The value of our deferred tax asset is directly related to effective income tax rates in effect at the time of uses. With the recent changes in Congress and the White House, there is a likelihood that corporate income tax rates will be reduced. This would cause a write-down of our deferred tax asset resulting in a charge to earnings.

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

We may not be able to sustain a positive rate of growth or be able to expand our business. We expect that other banking and financial service companies, many of which have significantly greater resources than us, will compete with us in acquiring other financial institutions if we pursue such acquisitions. This competition could increase prices for potential acquisitions that we believe are attractive. Also, acquisitions are subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals for a transaction, we will not be able to consummate such transaction which we believe to be in our best interests. Among other things, our regulators consider our capital, liquidity, profitability, regulatory compliance and levels of goodwill and intangibles when considering acquisition and expansion proposals. Other factors, such as economic conditions and legislative considerations, may also impede or prohibit our ability to expand our market presence. If we are not able to successfully grow our business, our financial condition and results of operations could be adversely affected.

Table of Contents

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

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

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

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

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

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

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

We are not restricted from issuing additional common stock or other securities. Additionally, our shareholders may in the future approve the authorization of additional classes or series of stock which may have distribution or other rights senior to the rights of our common stock, or may be convertible into or exchangeable for, or may represent the right to receive, common stock or substantially similar securities. The future issuance of shares of our common stock or any other such future equity classes or series could have a dilutive effect on the holders of our common stock. Additionally, the market value of our common stock could decline as a result of sales by us of a large number of shares of common stock or any future class or series of stock in the market or the perception that such sales could occur.

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

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

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

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

Table of Contents

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

- Changes in securities analysts' estimates of financial performance;
- Volatility of stock market prices and volumes;
- Rumors or erroneous information;
- Changes in market values of similar companies;
- New developments in the banking industry;
- Variations in quarterly or annual operating results;
- New litigation or changes in existing litigation;
- Regulatory actions;
- Restructuring of government-sponsored enterprises such as Fannie Mae and Freddie Mac;

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2016, the Corporation owns or leases 25 full-service branch locations, eight limited-hour retirement community branches, one limited-service branch location, five wealth management offices, one insurance agency and six other office properties which serve as administrative offices.

The following table details the Corporation's properties and deposits as of December 31, 2016:

Property Address	Owned/Leased	Total Deposits as of December 31, 2016 (dollars in thousands)

Full Service Branches (Banking Segment):

801 Lancaster Ave., Bryn Mawr, PA 19010*	Owned	$ 864,074
50 W. Lancaster Ave., Ardmore, PA 19003	Leased	120,853
5000 Pennell Rd., Aston, PA 19014	Leased	21,834
135 E. City Avenue, Bala Cynwyd, PA 19004	Leased	36,408
599 Skippack Pk., Blue Bell, PA 19422	Leased	103,641
3218 Edgemont Ave., Brookhaven, PA 19015	Owned	69,294
US Rts. 1 and 100, Chadds Ford, PA 19317	Leased	42,227
23 E. Fifth St., Chester, PA 19013	Leased	19,317
31 Baltimore Pk., Chester Heights, PA 19017	Leased	76,328
528 Fayette St., Conshohocken, PA 19428	Leased	99,203
113 W. Germantown Pk., East Norriton, PA 19401	Leased	58,007
237 N. Pottstown Pk., Exton, PA 19341	Leased	95,723

Table of Contents

18 W. Eagle Rd., Havertown, PA 19083	Owned	104,000
106 E. Street Rd., Kennett Square, PA 19348	Leased	33,128
197 E. DeKalb Pk., King of Prussia, PA 19406	Leased	69,299
33 W. Ridge Pk., Limerick, PA 19468	Leased	28,161
22 W. State St., Media, PA 19063	Owned	69,467
3601 West Chester Pk., Newtown Square, PA 19073	Leased	76,455
39 W. Lancaster Ave., Paoli, PA 19301	Owned	119,477
7133 Ridge Ave., Philadelphia, PA 19128	Leased	51,294
330 Dartmouth Ave., Swarthmore, PA 19081	Owned	51,975
330 E. Lancaster Ave., Wayne, PA 19087	Owned	131,645
849 Paoli Pk., West Chester, PA 19380	Leased	55,549
436 Egypt Rd., West Norriton, PA 19428	Leased	52,224
1000 Rocky Run Parkway, Wilmington, DE 19803	Leased	72,068
Life Care Community Offices (Banking Segment):		
10000 Shannondell Dr., Audubon, PA 19403	Leased	25,114
404 Cheswick Pl., Bryn Mawr, PA 19010	Leased	2,819
601 N. Ithan Ave., Bryn Mawr, PA 19010	Leased	5,374
1400 Waverly Rd, Gladwyne, PA 19035	Leased	4,169
3300 Darby Rd., Haverford, PA 19041	Leased	6,804
11 Martins Run, Media, PA 19063	Leased	2,899
535 Gradyville Rd., Newtown Square, PA 19073	Leased	9,136
1615 E. Boot Rd., West Chester, PA 19380	Leased	1,709
Total Deposits:		$2,579,675
Other Administrative Offices (Banking and Wealth Management Segments)		

2, 6 S. Bryn Mawr Ave., Bryn Mawr, PA 19010	Leased	Not applicable

20

Table of Contents

10 S. Bryn Mawr Ave., Bryn Mawr, PA 19010***	Owned	Not applicable
4093 W. Lincoln Hwy., Exton, PA 19341**	Leased	Not applicable
16 Campus Blvd., Newtown Square, PA 19073**	Leased	Not applicable
322 E. Lancaster Ave., Wayne, PA 19087	Owned	Not applicable
1 West Chocolate Avenue, Hershey, PA 17033***	Leased	Not applicable
20 Montchanin Rd, Suite 185 Greenville, DE 19807**	Leased	Not applicable
620 W. Germantown Pk, Plymouth Mtg, PA 19462**	Leased	Not applicable
20 North Waterloo Rd, Devon PA 19380***	Leased	Not applicable
Powers Craft Parker & Beard Inc., 15 Garrett Ave, Rosemont, PA 19010****	Leased	Not applicable
Subsidiary Offices (Wealth Management Segment):		
Lau Associates - 20 Montchanin Rd, Suite 110, Greenville, DE 19087	Leased	Not applicable
BMTC-DE - 20 Montchanin Rd, Suite 100 Greenville, DE 19807	Leased	Not applicable

* *Corporate headquarters and executive offices*

** *Lending office*

*** *Wealth Management office*

**** *Insurance Agency*

ITEM 3. LEGAL PROCEEDINGS

Neither the Corporation nor any of its subsidiaries is a party to, nor is any of their property the subject of, any material pending legal proceedings other than ordinary routine litigation incidental to their businesses.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

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

The Corporation's common stock is traded on the NASDAQ Stock Market under the symbol BMTC. As of March 2, 2017 there were 582 holders of record of the Corporation's common stock.

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

	2016			**2015**		
	High	**Low**	**Dividend Declared**	**High**	**Low**	**Dividend Declared**
1st Quarter	$29.06	$24.17	$ 0.20	$31.42	$28.50	$ 0.19
2nd Quarter	$30.32	$24.95	$ 0.20	$31.77	$28.52	$ 0.19
3rd Quarter	$32.45	$28.34	$ 0.21	$31.48	$27.95	$ 0.20
4th Quarter	$42.15	$30.40	$ 0.21	$31.32	$27.85	$ 0.20

Table of Contents

The information regarding dividend restrictions is set forth in Note 25 – "Dividend Restrictions" in the accompanying Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

Comparison of Cumulative Total Return Chart

The following chart compares the yearly percentage change in the cumulative shareholder return on the Corporation's common stock during the five years ended December 31, 2016, with (1) the Total Return of the NASDAQ Community Bank Index; (2) the Total Return of the NASDAQ Market Index; (3) the Total Return of the SNL Bank and Thrift Index; and (4) the Total Return of the SNL Mid-Atlantic Bank Index. This comparison assumes $100.00 was invested on December 31, 2011, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends.

Five Year Cumulative Return Summary

	As of December 31,					
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
Bryn Mawr Bank Corporation	$100.00	$117.74	$163.98	$174.46	$164.40	$248.25
NASDAQ Community Bank Index	$100.00	$117.71	$166.78	$174.55	$191.21	$265.34
NASDAQ Market Index	$100.00	$117.45	$164.57	$188.84	$201.98	$219.89
SNL Bank and Thrift	$100.00	$134.28	$183.86	$205.25	$209.39	$264.35
SNL Mid-Atlantic Bank	$100.00	$133.96	$180.57	$196.72	$204.10	$259.43

Equity Compensation Plan Information

The information set forth under the caption “Equity Plan Compensation Information” in the 2017 Proxy Statement is incorporated by reference herein. Additionally, equity compensation plan information is incorporated by reference to Item 12 of this Annual Report on Form 10-K. Additional information regarding the Corporation’s equity compensation plans can be found at Note 19 – “Stock Based Compensation” in the accompanying Notes to Consolidated Financial Statements found in this Annual Report on Form 10-K.

Table of Contents

Issuer Purchases of Equity Securities

The following tables present the repurchasing activity of the Corporation during the fourth quarter of 2016:

Shares Repurchased in the 4th Quarter of 2016

Period:			Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs[(1)]
Oct. 1, 2016	–	Oct. 31, 2016	1,147	(2)(3)	$ 31.54	—	189,300
Nov. 1, 2016	–	Nov. 30, 2016	—		—	—	189,300
Dec. 1, 2016	–	Dec. 31, 2016	448	(3)	$ 42.06	—	189,300
Total			1,595		$ 34.50	—	189,300

(1) On August 6, 2015, the Corporation announced a stock repurchase program (the "2015 Program") under which the Corporation may repurchase up to 1,200,000 shares of the Corporation's common stock, at an aggregate purchase price not to exceed $40 million. There is no expiration date on the 2015 Program and the Corporation has no plans for an early termination of the 2015 Program. During the three months ended September 30, 2016, no repurchases occurred under the 2015 Program. As of December 31, 2016, the maximum number of shares remaining authorized for repurchase under the 2015 Program was 189,300.

(2) On October 5, 2016, 610 shares were purchased to cover statutory tax withholding requirements on vested stock awards for certain officers of the Corporation.

(3) On October 4, 2016 and December 29, 2016, 537 shares and 448 shares, respectively, were purchased by the Corporation's deferred compensation plans through open market transactions.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

Earnings *(dollars in thousands)*	**As of or for the Twelve Months Ended December 31, 2016**	**2015**	**2014**	**2013**	**2012**
Interest income	$116,991	$108,542	$82,906	$78,417	$73,323
Interest expense	10,755	8,415	6,078	5,427	8,588
Net interest income	106,236	100,127	76,828	72,990	64,735
Provision for loan and lease losses	4,326	4,396	884	3,575	4,003
Net interest income after provision for loan and lease losses	101,910	95,731	75,944	69,415	60,732
Non-interest income	54,039	55,960	48,322	48,355	46,386
Non-interest expense	101,745	125,765	81,418	80,740	74,901
Income before income taxes	54,204	25,926	42,848	37,030	32,217
Income taxes	18,168	9,172	15,005	12,586	11,070
Net Income	$36,036	$16,754	$27,843	$24,444	$21,147
Per Share Data					
Weighted-average shares outstanding	16,859,623	17,488,325	13,566,239	13,311,215	13,090,110
Dilutive potential Common Stock	168,499	267,966	294,801	260,395	151,736
Adjusted weighted-average shares	17,028,122	17,756,291	13,861,040	13,571,610	13,241,846
Earnings per common share:					
Basic	$2.14	$0.96	$2.05	$1.84	$1.62
Diluted	$2.12	$0.94	$2.01	$1.80	$1.60
Dividends declared	$0.82	$0.78	$0.74	$0.69	$0.64
Dividends declared per share to net income per basic common share	38.3 %	81.3 %	36.1 %	37.5 %	39.5 %
Shares outstanding at year end	16,939,715	17,071,523	13,769,336	13,650,354	13,412,690
Book value per share	$22.50	$21.42	$17.83	$16.84	$15.18
Tangible book value per share	$15.11	$13.89	$13.59	$13.02	$11.08
Profitability Ratios					
Tax-equivalent net interest margin	3.76 %	3.75 %	3.93 %	3.98 %	3.85 %
Return on average assets	1.16 %	0.57 %	1.32 %	1.23 %	1.15 %
Return on average equity	9.75 %	4.49 %	11.56 %	11.53 %	10.91 %
Non-interest expense to net interest income and non-interest income	63.5 %	80.6 %	65.1 %	66.5 %	67.4 %
Non-interest income to net interest income and non-interest income	33.7 %	35.9 %	38.6 %	39.9 %	41.7 %

Average equity to average total assets	11.90 %	12.68 %	11.38 %	10.63 %	10.58 %
Financial Condition					
Total assets	$3,421,530	$3,030,997	$2,246,506	$2,061,665	$2,035,885
Total liabilities	3,040,403	2,665,286	2,001,032	1,831,767	1,832,321
Total shareholders' equity	381,127	365,711	245,474	229,898	203,564
Interest-earning assets	3,153,015	2,755,506	2,092,164	1,905,398	1,879,412
Portfolio loans and leases	2,535,425	2,268,988	1,652,257	1,547,185	1,398,456
Investment securities	573,763	352,916	233,473	289,245	318,061
Goodwill	104,765	104,765	35,502	32,843	32,897
Intangible assets	20,405	23,903	22,998	19,365	21,998
Deposits	2,579,675	2,252,725	1,688,028	1,591,347	1,634,682
Borrowings	423,425	378,509	283,970	216,535	170,718
Wealth assets under management, administration, supervision and brokerage	11,328,457	8,364,805	7,699,908	7,268,273	6,663,212
Capital Ratios					
Ratio of tangible common equity to tangible assets	7.76 %	8.17 %	8.55 %	8.84 %	7.50 %
Tier 1 capital to risk weighted assets	10.51 %	10.72 %	12.00 %	11.57 %	11.02 %
Total regulatory capital to risk weighted assets	12.35 %	12.61 %	12.87 %	12.55 %	12.02 %
Asset quality					
Allowance as a percentage of portfolio loans and leases	0.69 %	0.70 %	0.88 %	1.00 %	1.03 %
Non-performing loans and leases as a % of portfolio loans and leases	0.33 %	0.45 %	0.61 %	0.68 %	1.06 %

Table of Contents

Information related to accounting changes may be found under the caption “New Accounting Pronouncements” at Note 1-X in the accompanying Notes to Consolidated Financial Statements found in this Annual Report on Form 10-K.

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

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

Brief History of the Corporation

The Bryn Mawr Trust Company (the “Bank”) received its Pennsylvania banking charter in 1889 and is a member of the Federal Reserve System. In 1986, Bryn Mawr Bank Corporation (the “Corporation”) was formed and on January 2, 1987, the Bank became a wholly-owned subsidiary of the Corporation. The Bank and Corporation are headquartered in Bryn Mawr, Pennsylvania, a western suburb of Philadelphia. The Corporation and its subsidiaries offer a full range of personal and business banking services, consumer and commercial loans, equipment leasing, mortgages, insurance and wealth management services, including investment management, trust and estate administration, retirement planning, custody services, and tax planning and preparation from 25 full-service branches, eight limited-hour retirement community offices, one limited-service branch, five wealth management offices and a full-service insurance agency located throughout Montgomery, Delaware, Chester, Dauphin and Philadelphia counties in Pennsylvania and New Castle county in Delaware. The common stock of the Corporation trades on the NASDAQ Stock Market (“NASDAQ”) under the symbol BMTC.

The Corporation operates in a highly competitive market area that includes local, national and regional banks as competitors along with savings banks, credit unions, insurance companies, trust companies, registered investment advisors and mutual fund families. The Corporation and its subsidiaries are regulated by many agencies including the Securities and Exchange Commission (“SEC”), NASDAQ, Federal Deposit Insurance Corporation (“FDIC”), the Federal Reserve and the Pennsylvania Department of Banking and Securities. The goal of the Corporation is to become the preeminent community bank and wealth management organization in the Philadelphia area.

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

Robert J. McAllister Agency, Inc. (“RJM”) – April 1, 2015

Continental Bank Holdings, Inc. (“CBH”) – January 1, 2015 (the “CBH Merger”)

Powers Craft Parker and Beard, Inc. (“PCPB”) – October 1, 2014

First Bank of Delaware (“FBD”) – November 17, 2012

Davidson Trust Company (“DTC”) – May 15, 2012

The Private Wealth Management Group of the Hershey Trust Company (“PWMG”) – May 11, 2011

First Keystone Financial, Inc. (“FKB”) – July 1, 2010

In addition, on January 30, 2017, the Corporation entered into a definitive Agreement and Plan of Merger to acquire Royal Bancshares of Pennsylvania, Inc. (“RBPI”), parent company of Royal Bank America (“RBA”), in a transaction with an aggregate value of $127.7 million (the “Acquisition”). In connection with the Acquisition, RBPI will merge with and into the Corporation and RBA will merge with and into the Bank. The Acquisition, which is expected to add approximately $602 million in loans and $630 million in deposits (based on unaudited December 31, 2016 financial information), strengthens the Corporation’s position as the largest community bank in Philadelphia’s western suburbs and, based on deposits, ranks it as the eighth largest community bank headquartered in Pennsylvania. The Acquisition, which will expand the Corporation's distribution network by providing entry into the new markets of New Jersey and Berks County, Pennsylvania, and a new physical presence in Philadelphia County, Pennsylvania is expected to close during the third quarter of 2017.

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

Results of Operations

The following is management’s discussion and analysis of the significant changes in the results of operations, capital resources and liquidity presented in the accompanying consolidated financial statements. The Corporation’s consolidated financial condition and results of operations are comprised primarily of the Bank’s financial condition and results of operations. Current performance does not guarantee, and may not be indicative of, similar performance in the future. For more information on the factors that could affect performance, see "Special Cautionary Notice Regarding Forward Looking Statements" immediately following the index at the beginning of this document.

Critical Accounting Policies, Judgments and Estimates

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

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

The Allowance involves a higher degree of judgment and complexity than other significant accounting policies. The Allowance is estimated with the objective of maintaining a reserve level believed by the Corporation to be sufficient to absorb estimated credit losses present in the loan portfolio as of the reporting date. The Corporation’s determination of the adequacy of the allowance is based on frequent evaluations of the loan and lease portfolio and other relevant factors. Consideration is given to a variety of factors in establishing the estimate. Quantitative factors in the form of historical charge-off history by portfolio segment are considered. In connection with these quantitative factors, management establishes what it deems to be an adequate look-back period (“LBP”) for the charge-off history. As of December 31, 2016, the Corporation utilized a five-year LBP, which it believes adequately captures the trends in charge-offs. In addition, management develops an estimate of a loss emergence period (“LEP”) for each segment of the loan portfolio. The LEP estimates the time between the occurrence of a loss event for a borrower and an actual charge-off of a loan. As of December 31, 2016, the Corporation utilized a two-year LEP for its commercial loan segments and a one-year LEP for its consumer loan segments based on analyses of actual charge-offs tracked back in time to the triggering event for the eventual loss. In addition, various qualitative factors are considered, including specific terms and conditions of loans and leases, underwriting standards, delinquency statistics, industry concentration, overall exposure to a single customer, adequacy of collateral, the dependence on collateral, and results of internal loan review, including a borrower’s perceived financial and management strengths, the amounts and timing of the present value of future cash flows, and the access to additional funds. It should be noted that this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, the amounts and timing of expected cash flows on impaired loans and leases, the value of collateral, estimated losses on consumer loans and residential mortgages and the relevance of historical loss experience. The process also considers economic conditions and inherent risks in the loan and lease portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from the Corporation’s estimates, additional provision for loan and lease losses (the “Provision”) may be required that would adversely impact earnings in future periods. See the section of this document titled *Asset Quality and Analysis of Credit Risk* for additional information.

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

The Corporation may designate its investment securities as held-to-maturity, available-for-sale or trading. Each of these designations affords different treatment for changes in the fair market values of investment securities in the Corporation's financial statements that are otherwise identical. Should evidence emerge which indicates that management's intent or ability to maintain the securities as originally designated is not supported, reclassifications among the three designations may be necessary and, as a result, may require adjustments to the Corporation's financial statements. As of December 31, 2016, the Corporation's investment portfolio was primarily comprised of investment securities classified as available for sale.

Valuation of Goodwill and Other Intangible Assets

Goodwill and other intangible assets have been recorded on the books of the Corporation in connection with its acquisitions. The Corporation completes a goodwill impairment analysis at least on an annual basis, or more often if events and circumstances indicate that there may be impairment. The Corporation also completes an annual impairment test for other intangible assets, or more often, if events and circumstances indicate a possible impairment. During 2016, the Corporation made a voluntary change in the method of applying an accounting principle related to the timing of the annual goodwill impairment assessment from December 31st to October 31st. Management made this decision based on the time-intensive nature of the goodwill impairment assessment. Management does not consider this change in impairment testing date to be a material change in application of an accounting principle. There was no goodwill impairment recorded during the twelve month periods ended December 31, 2016, 2015 or 2014. During the twelve months ended December 31, 2015, impairment of $387 thousand was recorded related to a favorable lease asset that had been recorded in connection with the CBH Merger. Subsequent to the CBH Merger, a decision was made to terminate the lease of the former CBH headquarters, which resulted in the favorable lease asset impairment charge. There was no impairment of identifiable intangible assets during the twelve month periods ended December 31, 2016 or 2015. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

Table of Contents

Other significant accounting policies are presented in Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements. The Corporation's accounting policies have not substantively changed any aspect of its overall approach in the application of the foregoing policies.

Overview of General Economic, Regulatory and Governmental Environment

Real GDP for the fourth quarter of 2016 indicated a quarter-over-quarter increase of 1.9%, below the 2.2% consensus forecast and showed a deceleration from the robust 3.5% pace of the third quarter of 2016. For the full year of 2016, Real GDP grew at a 1.6% pace, down from the 2015 growth rate of 2.6%. One clear area of GDP strength has been that of consumer, where strong spending and confidence data have been largely supported by job growth and an improving wage growth picture. Measures of consumer confidence are reaching levels not seen in more than 10 years. The Conference Board Consumer Confidence Index had jumped to 113.3 in December 2016, a 15-year high, before retreating modestly in January to 111.8.

The Federal Open Market Committee met on January 26-27, 2017 leaving short term interest rates unchanged. The Committee's statement included the following: "The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation."

The focus of attention has now moved from the presidential and congressional elections that took place in November 2016, to implementation expectations for fiscal stimulus measures and regulatory relief.

We acknowledge that there are plenty of geopolitical risks present that could alter the economic landscape as we progress through 2017. That said, a combination of lower taxes, less regulation, and increased infrastructure spending could stimulate economic growth and prolong this economic expansion, which is long by historic standards.

Executive Overview

The following Executive Overview provides a summary-level review of the results of operation for 2016 compared to 2015 and 2015 compared to 2014 as well as a comparison of the December 31, 2016 balance sheet as compared to the December 31, 2015 balance sheet. More detailed information regarding these comparisons can be found in the sections that follow.

2016 Compared to 2015

Income Statement

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

The $6.2 million increase in the Corporation’s tax-equivalent net interest income for the twelve months ended December 31, 2016, as compared to the same period in 2015, was related to a $268.8 million increase in average loans offset by a $117.8 million decrease in interest-earning deposits with other banks. This redeployment of low-yielding cash on deposit with other banks to higher yielding loans resulted in an $8.2 million increase in tax-equivalent interest income. The tax-equivalent yield earned on loans for the twelve months ended December 31, 2016 was 4.57%, while the tax-equivalent yield earned on interest-earning deposits with other banks was only 0.39%. Partially offsetting the increase in average loans, average interest-bearing deposits increased by $86.4 million, accompanied by an 8 basis point increase in rate paid on deposits. Average long-term Federal Home Loan Bank (“FHLB”) advances and other borrowings decreased by $29.0 million between the twelve month periods ended December 31, 2015 and 2016 as the inflow of deposits during 2016 alleviated the need to increase borrowings to support loan growth.

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

Non-interest income for the twelve months ended December 31, 2016 was $54.0 million, a $1.9 million decrease from the same period in 2015. Decreases of $1.0 million in gain on sale of available for sale investment securities, $319 thousand in dividends on FHLB and Federal Reserve Bank ("FRB") stocks and $204 thousand in fees for wealth management services were the primary contributors to this decrease.

Non-interest expense for the twelve months ended December 31, 2016, was $101.7 million, a decrease of $24.0 million, as compared to the same period in 2015. The primary causes of this decrease were the absences of the $17.4 million loss on settlement of the corporate pension and the $6.7 million in due diligence, merger-related and merger integration costs recorded in 2015. Partially offsetting these improvements were increases of $2.8 million and $679 thousand in salaries and wages and furniture, fixtures and equipment, respectively.

Balance Sheet

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

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

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

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

Wealth Assets

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

2015 Compared to 2014

Income Statement

It should be noted that much of the increase in income and expense for the twelve months ended December 31, 2015, as compared to the same period in 2014 was the result of the CBH Merger, which initially increased interest-earning assets by $617.4 million, interest-bearing liabilities by $516.2 million, and added ten new branch locations.

The Corporation reported net income of $16.8 million or $0.94 diluted earnings per share for the twelve months ended December 31, 2015, as compared to $27.8 million, or $2.01 diluted earnings per share, for the same period in 2014. ROE and ROA for the twelve months ended December 31, 2015, were 4.49% and 0.57%, respectively, as compared to 11.56% and 1.32%, respectively, for the same period in 2014. The decrease in net income for the twelve months ended December 31, 2015, as compared to the same period in 2014 was a direct result of the $17.4 million pre-tax loss on the settlement of the pension plan. In addition to the loss on the pension plan settlement, there were increases in net interest income, non-interest income and non-interest expense which were all largely related to the CBH Merger.

The $23.4 million, or 30.3%, increase in the Corporation's tax-equivalent net interest income for the twelve months ended December 31, 2015, as compared to the same period in 2014, was attributed to the $424.2 million of portfolio loans acquired in the CBH Merger, in addition to the $192.5 million of organic loan growth experienced during 2015. Average loans increased by $551.4 million for the twelve months ended December 31, 2015, as compared to the same period in 2014. Partially offsetting this increase in average loans, average interest-bearing deposits increased by $453.0 million, related to the $387.8 million of interest-bearing deposits assumed in the CBH Merger. In addition, combined average short-term and long-term borrowings increased by $47.7 million and average subordinated notes, which were originated in August 2015, increased $12.0 million for the twelve months ended December 31, 2015 as compared to the same period in 2014. The tax-equivalent yield on interest-earning assets decreased 17 basis points, while the tax equivalent rate paid on interest-bearing liabilities remained unchanged for the twelve months ended December 31, 2015 as compared to the same period in 2014.

For the twelve months ended December 31, 2015, the Provision of $4.4 million was an increase of $3.5 million from the $884 thousand for the same period in 2014. Net loan and lease charge offs for the twelve months ended December 31, 2015 totaled $3.1 million, an increase of $1.3 million from the same period in 2014.

Non-interest income for the twelve months ended December 31, 2015 was $56.0 million, a $7.6 million increase from the same period in 2014. Increases of $2.6 million in wealth management revenue, $1.3 million in gain on sale of loans, $1.8 million in other operating income and $767 thousand in dividends on FHLB and FRB stocks contributed to the increase.

Non-interest expense for the twelve months ended December 31, 2015, was $125.8 million, an increase of $44.3 million, as compared to the same period in 2014. Largely contributing to the increase was the $17.4 million loss on settlement of the pension plan, a $4.3 million increase in due diligence, merger-related and merger integration costs as well as increases in nearly all other expense lines as a result of the increased staffing and facilities added in the CBH Merger.

Components of Net Income

Net income is comprised of five major elements:

Net Interest Income, or the difference between the interest income earned on loans, leases and investments and the interest expense paid on deposits and borrowed funds;

Provision For Loan and Lease Losses, or the amount added to the Allowance to provide for estimated inherent losses on portfolio loans and leases;

Non-Interest Income, which is made up primarily of wealth management revenue, gains and losses from the sale of residential mortgage loans, gains and losses from the sale of available for sale investment securities and other fees from loan and deposit services;

Non-Interest Expense, which consists primarily of salaries and employee benefits, occupancy, intangible asset amortization, professional fees and other operating expenses; and

Income Taxes, which include state and federal jurisdictions.

Net Interest Income

Rate/Volume Analyses (Tax-equivalent Basis)*

The rate volume analysis in the table below analyzes dollar changes in the components of interest income and interest expense as they relate to the change in balances (volume) and the change in interest rates (rate) of tax-equivalent net interest income for the years 2016 as compared to 2015, and 2015 as compared to 2014, allocated by rate and volume. The change in interest income / expense due to both volume and rate has been allocated to changes in volume.

Table of Contents

(dollars in thousands) increase/(decrease)	Year Ended December 31, 2016 Compared to 2015 Volume	Rate	Total	2015 Compared to 2014 Volume	Rate	Total
Interest Income:						
Interest-bearing deposits with banks	$(300)	$59	$(241)	$183	$33	$216
Investment securities - taxable	213	373	586	1,324	107	1,431
Investment securities –nontaxable	(19)	20	1	76	71	147
Loans and leases	12,636	(4,418)	8,218	27,151	(3,225)	23,926
Total interest income	12,530	(3,966)	8,564	28,734	(3,014)	25,720
Interest expense:						
Savings, NOW and market rate accounts	167	—	167	427	216	643
Wholesale deposits	192	276	468	198	(53)	145
Retail time deposits	48	938	986	604	(78)	526
Borrowed funds – short-term	1	44	45	24	7	31
Borrowed funds – long-term	(404)	203	(201)	391	—	391
Subordinated notes	864	11	875	601	—	601
Total interest expense	868	1,472	2,340	2,245	92	2,337
Interest differential	$11,662	$(5,438)	$6,224	$26,489	$(3,106)	$23,383

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

Analysis of Interest Rates and Interest Differential

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

	For the Year Ended December 31, 2016			2015			2014		
(dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Average Rates Earned/ Paid**	**Average Balance**	**Interest Income/ Expense**	**Average Rates Earned/ Paid**	**Average Balance**	**Interest Income/ Expense**	**Average Rates Earned/ Paid**
Assets:									
Interest-bearing deposits with banks	$43,214	$168	0.39%	$161,032	$409	0.25%	$83,163	$193	0.23%
Investment securities - available for sale:									
Taxable	329,161	5,784	1.76%	315,741	5,124	1.62%	233,054	3,740	1.60%
Tax –Exempt	38,173	742	1.94%	39,200	741	1.89%	34,689	594	1.71%
Total investment securities – available	367,334	6,526	1.78%	354,941	5,865	1.65%	267,743	4,334	1.62%

for sale									
Investment securities – held to maturity	2,060	4	0.19%	—	—	—	—	—	—
Investment securities – trading	3,740	2	0.05%	3,881	80	2.06%	3,591	33	0.92%
Loans and leases(1)(2)(3)	2,429,416	110,925	4.57%	2,160,628	102,707	4.75%	1,609,220	78,781	4.90%
Total interest-earning assets	2,845,764	117,625	4.13%	2,680,482	109,061	4.07%	1,963,717	83,341	4.24%
Cash and due from banks	16,317			17,615			12,730		
Allowance for loan and lease losses	(17,159)			(15,099)			(15,836)		
Other assets	260,728			259,515			154,871		
Total assets	$3,105,650			$2,942,513			$2,115,482		
Liabilities:									
Savings, NOW, and market rate accounts	$1,292,228	$2,485	0.19%	$1,249,567	$2,318	0.19%	$958,129	1,675	0.17%
Wholesale deposits	163,724	1,240	0.76%	130,773	772	0.59%	99,059	627	0.63%
Time deposits	266,772	2,108	0.79%	255,961	1,122	0.44%	126,097	596	0.47%
Total interest-bearing deposits	1,722,724	5,833	0.34%	1,636,301	4,212	0.26%	1,183,285	2,898	0.24%
Short-term borrowings	37,041	93	0.25%	36,010	48	0.13%	15,960	17	0.11%
FHLB advances and other borrowings	225,815	3,353	1.48%	254,828	3,554	1.39%	227,137	3,163	1.39%
Subordinated notes	29,503	1,476	5.00%	12,013	601	5.00%	—	—	
Total interest-bearing liabilities	2,015,083	10,755	0.53%	1,939,152	8,415	0.43%	1,426,382	6,078	0.43%
Non-interest-bearing deposits	687,134			594,122			426,274		
Other liabilities	33,904			36,151			22,048		
Total non-interest-bearing liabilities	721,038			630,273			448,322		
Total liabilities	2,736,121			2,569,425			1,874,704		
Shareholders' equity	369,529			373,088			240,778		
Total liabilities and shareholders' equity	$3,105,650			$2,942,513			$2,115,482		
Net interest spread			3.60%			3.64%			3.81%
Effect of non-interest-bearing sources			0.16%			0.11%			0.12%
Net interest income/margin on earning assets		$106,870	3.76%		$100,646	3.75%		$77,263	3.93%
		$634	0.02%		$519	0.02%		$435	0.02%

Tax-equivalent adjustment (tax rate 35%)

(1) *Non-accrual loans have been included in average loan balances, but interest on non-accrual loans has not been included for purposes of determining interest income.*

(2) *Includes portfolio loans and leases and loans held for sale.*

(3) *Interest on loans and leases includes deferred fees of $522, $424 and $248 for the years ended December 31, 2016, 2015 and 2014, respectively.*

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

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

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

Tax-Equivalent Net Interest Income and Margin - 2015 Compared to 2014

The tax-equivalent net interest margin decreased 18 basis points to 3.75% for the twelve months ended December 31, 2015, as compared to 3.93%, for the same period in 2014. Largely contributing to the decline was the 15 basis point decrease in yield on loans and leases for 2015 as compared to 2014. Although the loans acquired in the CBH Merger contributed to the margin through the accretion of their loan marks, the lower-interest-rate environment in 2015 resulted in new loan volume being originated at lower yields than the yields in the portfolio as of December 31, 2014. The decrease in tax-equivalent yield on loans was partially offset by a 3 basis point increase in yield on available for sale investment securities. On the liability side, the 4.75% fixed-to-floating rate subordinated notes issued in August 2015 affected the tax-equivalent yield for 2015. The average balance of subordinated notes for the twelve months ended December 31, 2015 totaled $12.0 million at a rate of 5.00%. Also driving the tax equivalent yield down, to a lesser extent, the rate paid on interest-bearing deposits increased by 2 basis points, while rates paid on borrowings remained unchanged from 2014 to 2015.

Tax-equivalent net interest income for the twelve months ended December 31, 2015 of $100.6 million, was $23.4 million, or 30.3%, higher than the tax-equivalent net interest income of $77.3 million for the same period in 2014. The primary driver for the increase in tax-equivalent net interest income was the volume of interest-earning assets and interest-bearing liabilities added in CBH Merger. The CBH Merger added $424.2 million of portfolio loans, while organic loan growth contributed another $192.5 million of portfolio loans. The average balance of loans increased by $551.4 million for the twelve months ended December 31, 2015, as compared to the same period in 2014. Interest-bearing deposits assumed in the CBH Merger totaled $387.8 million. Average interest-bearing deposits for the twelve months ended December 31, 2015 increased by $453.0 million as compared to the same period in 2014. In addition to the assets and liabilities acquired in the CBH Merger, the Corporation issued $30.0 million of 4.75% fixed-to-floating rate subordinated notes in August 2015. Of the $23.4 million increase in tax-equivalent net interest income between 2014 and 2015, volume increases of both interest-earning assets and interest-bearing liabilities accounted for a $26.5 million increase while decreases in yields on interest-earning assets and increases on rates paid on interest-bearing liabilities accounted for a $2.3 million decrease in tax-equivalent net interest income.

Tax-Equivalent Net Interest Margin – Quarterly Comparison

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

Quarter	Year	Earning-Asset Yield		Interest-Bearing Liability Cost		Net Interest Spread		Effect of Non-Interest-Bearing Sources		Tax-Equivalent Net Interest Margin	
4th	2016	4.05	%	0.56	%	3.49	%	0.16	%	3.65	%
3rd	2016	4.09	%	0.55	%	3.54	%	0.17	%	3.71	%
2nd	2016	4.18	%	0.53	%	3.65	%	0.16	%	3.81	%
1st	2016	4.22	%	0.49	%	3.73	%	0.14	%	3.87	%
4th	2015	4.11	%	0.48	%	3.63	%	0.14	%	3.77	%

Table of Contents

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

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

The following table demonstrates the annualized result of an interest rate simulation and the estimated effect that a parallel interest rate shift, or "shock", in the yield curve and subjective adjustments in deposit pricing, might have on the Corporation's projected net interest income over the next 12 months.

This simulation assumes that there is no growth in interest-earning assets or interest-bearing liabilities over the next twelve months. The changes to net interest income shown below are in compliance with the Corporation's policy guidelines.

Summary of Interest Rate Simulation

	Change in Net Interest Income	Change in Net Interest Income

	Over the Twelve Months Beginning After December 31, 2016		Over the Twelve Months Beginning After December 31, 2015	
	Amount	Percentage	Amount	Percentage
+300 basis points	$10,207	9.01 %	$3,128	3.09 %
+200 basis points	$6,653	5.87 %	$1,637	1.62 %
+100 basis points	$3,048	2.69 %	$210	0.21 %
-100 basis points	$(4,397)	(3.88)%	$(2,490)	(2.46)%

The above interest rate simulation suggests that the Corporation’s balance sheet is asset sensitive as of December 31, 2016 in the +100 basis point scenario, demonstrating that a 100 basis point increase in interest rates would have a positive impact on net interest income over the next 12 months. The balance sheet is more asset sensitive in a rising-rate environment as of December 31, 2016 than it was as of December 31, 2015. This increase in sensitivity is related to a decrease in cash balances, an increase in floating rate loans, and an increase in fixed rate certificates of deposit. The magnitude of the change in net interest income resulting from a 100 basis point decrease in rates as compared to the magnitude of the increase in net income accompanying a 100 basis point increase in rates is the result of the ability to decrease loan rates to more of a degree than deposits rates in a down 100 basis point rate shift.

The interest rate simulation is an estimate based on assumptions, which are derived from past behavior of customers, along with expectations of future behavior relative to interest rate changes. In today’s uncertain economic environment and the current extended period of very low interest rates, the reliability of the Corporation’s assumptions in the interest rate simulation model is more uncertain than in prior periods. Actual customer behavior, as it relates to deposit activity, may be significantly different than expected behavior, which could cause an unexpected outcome and may result in lower net interest income than that derived from the analysis referenced above.

Table of Contents

Gap Analysis

The interest sensitivity, or gap analysis, identifies interest rate risk by showing repricing gaps in the Corporation's balance sheet. All assets and liabilities are reflected based on behavioral sensitivity, which is usually the earliest of either: repricing, maturity, contractual amortization, prepayments or likely call dates. Non-maturity deposits, such as NOW, savings and money market accounts are spread over various time periods based on the expected sensitivity of these rates considering liquidity and the investment preferences of the Corporation. Non-rate-sensitive assets and liabilities are spread over time periods to reflect the Corporation's view of the maturity of these funds.

Non-maturity deposits (demand deposits in particular) are recognized by the Bank's regulatory agencies to have different sensitivities to interest rate environments. Consequently, it is an accepted practice to spread non-maturity deposits over defined time periods in order to capture that sensitivity. Commercial demand deposits are often in the form of compensating balances, and fluctuate inversely to the level of interest rates; the maturity of these deposits is reported as having a shorter life than typical retail demand deposits. Additionally, the Bank's regulatory agencies have suggested distribution limits for non-maturity deposits. However, the Corporation has taken a more conservative approach than these limits would suggest by forecasting these deposit types with a shorter maturity. The following table presents the Corporation's gap analysis as of December 31, 2016:

(dollars in millions)	**0 to 90 Days**	**91 to 365 Days**	**1 - 5 Years**	**Over 5 Years**	**Non-Rate Sensitive**	**Total**
Assets:						
Interest-bearing deposits with banks	$34.2	$—	$—	$—	$ —	$34.2
Investment securities[1]	236.0	61.2	181.3	95.2	—	573.7
Loans and leases[2]	912.7	306.1	967.6	358.7	—	2,545.1
Allowance	—	—	—	—	(17.5)	(17.5)
Cash and due from banks	—	—	—	—	16.6	16.6
Other assets	—	—	—	—	269.4	269.4
Total assets	$1,182.9	$367.3	$1,148.9	$453.9	$ 268.5	$3,421.5
Liabilities and shareholders' equity:						
Demand, non-interest-bearing	$45.6	$136.7	$191.6	$362.3	$ —	$736.2
Savings, NOW and market rate	95.3	286.0	678.7	313.2	—	1,373.2
Time deposits	35.4	243.6	43.8	0.1	—	322.9
Wholesale non-maturity deposits	74.3	—	—	—	—	74.3
Wholesale time deposits	6.6	30.6	35.9	—	—	73.1
Short-term borrowings	204.2	—	—	—	—	204.2
FHLB advances and other borrowings	30.0	45.0	114.7	—	—	189.7
Subordinated notes	—	—	29.5	—	—	29.5
Other liabilities	—	—	—	—	37.3	37.3
Shareholders' equity	13.6	40.8	217.8	108.9	—	381.1

Total liabilities and shareholders' equity	$505.0	$782.7	$1,312.0	$784.5	$ 37.3	$3,421.5
Interest-earning assets	$1,182.9	$367.3	$1,148.9	$453.9	$ —	$3,153.0
Interest-bearing liabilities	445.8	605.2	902.6	313.3	—	2,266.9
Difference between interest-earning assets and interest-bearing liabilities	$737.1	$(237.9)	$246.3	$140.6	$ —	$886.1
Cumulative difference between interest earning assets and interest-bearing liabilities	$737.1	$499.2	$745.4	$886.1	$ —	$886.1
Cumulative earning assets as a % of cumulative interest bearing liabilities	265 %	147 %	138 %	139 %		

(1) *Investment securities include available for sale, held to maturity and trading.*
(2) *Loans include portfolio loans and leases and loans held for sale.*

The table above indicates that the Corporation is asset sensitive and should experience an increase in net interest income in the near term, if interest rates rise. Accordingly, if rates decline, net interest income should decline. Actual results may differ from expected results for many reasons including market reactions, competitor responses, customer behavior and/or regulatory actions.

Provision for Loan and Lease Losses

General Discussion of the Allowance for Loan and Lease Losses

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

Table of Contents

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

While the Corporation considers the Allowance to be adequate, based on information currently available, future additions to the Allowance may be necessary due to changes in economic conditions or the Corporation's assumptions as to future delinquencies, recoveries and losses and the Corporation'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 processes, periodically review the Corporation's Allowance.

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

The four components of the Allowance are as follows:

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

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

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

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

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

Pass – Loans considered satisfactory with no indications of deterioration.

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

Substandard - Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have well-defined weaknesses that may jeopardize the liquidation of the collateral and repayment of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loan balances classified as doubtful have been reduced by partial charge-offs and are carried at their net realizable values.

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

Table of Contents

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

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

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

Refer to Note 5 in the Notes to Consolidated Financial Statements and the section of this MD&A under the heading “Portfolio Loans and Leases” for details of the Corporation’s loan and lease portfolio, broken down by portfolio segment.

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

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

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

Nonaccrual Loans – In general, loans and leases that are delinquent on contractually due principal or interest payments for more than 89 days are placed on nonaccrual status and any unpaid interest is reversed as a charge to interest income. When the loan resumes payment, all payments (principal and interest) are applied to reduce principal. After a period of six months of satisfactory performance, the loan may be placed back on accrual status. Any interest payments received during the nonaccrual period that had been applied to reduce principal are reversed and recorded as a deferred fee which accretes to interest income over the remaining term of the loan or lease. In certain cases, the Corporation may have information about a particular loan or lease that may indicate a future disruption or curtailment of contractual payments. In these cases, the Corporation will preemptively place the loan or lease on nonaccrual status.

Troubled Debt Restructurings ("TDRs") - The Corporation follows guidance provided by ASC 310-40, "Troubled Debt Restructurings by Creditors." A restructuring of a debt constitutes a TDR if the creditor, for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider in the normal course of business. A concession may include an extension of repayment terms which would not normally be granted, a reduction of interest rate or the forgiveness of principal and/or accrued interest. If the debtor is experiencing financial difficulty and the creditor has granted a concession, the Corporation will make the necessary disclosures related to the TDR. In certain cases, a modification may be made in an effort to retain a customer who is not experiencing financial difficulty. This type of modification is not considered to be a TDR. Once a loan or lease has been modified and is considered a TDR, it is reported as an impaired loan or lease. If the loan or lease deemed a TDR has performed for at least six months at the level prescribed by the modification, it is not considered to be non-performing; however, it will generally continue to be reported as impaired. Loans and leases that have performed for at least six months are reported as TDRs in compliance with modified terms.

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

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

Open-ended consumer loans exceeding 180 days past due.

Table of Contents

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

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

Refer to Note 5-F in the Notes to Consolidated Financial Statements for more information regarding the Corporation's charge-offs and factors which influenced Management's judgment with respect thereto.

Loans Acquired in Mergers and Acquisitions

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

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

Loans acquired in mergers and acquisitions which do not exhibit deteriorated credit quality at the time of acquisition are accounted for under ASC 310-20 and receive a loan mark based on credit and interest-rate. The resulting discount or premium is accreted or amortized, respectively, to interest income over their remaining maturity. These non-impaired acquired loans, along with the balance of the Corporation's loan and lease portfolio are evaluated on either an individual basis or on a collective basis for impairment. For a more information regarding the Corporation's impaired loans and leases, refer to Notes 5-F and 5-H and for more information regarding loan marks, refer to Note 5-I in the Notes to Consolidated Financial Statements.

Asset Quality and Analysis of Credit Risk

As of December 31, 2016, total non-performing loans and leases were $8.4 million, representing 0.33% of portfolio loans and leases, as compared to $10.2 million, or 0.45% of portfolio loans and leases, as of December 31, 2015. The $1.9 million decrease in non-performing loans and leases was comprised of decreases of $1.2 million, $554 thousand and $509 thousand in commercial and industrial loans, residential mortgages, and commercial mortgages, respectively. These decreases were partially offset by increases of $262 thousand and $128 thousand in non-performing home equity lines and loans and leases, respectively.

The Provision for the twelve month periods ended December 31, 2016, 2015 and 2014 was $4.3 million, $4.4 million and $884 thousand, respectively. The Provision recorded during any given period reflects an allocation related to net new loan volume and the replenishment of Allowance consumed by charge-offs of loans and leases for which the Corporation had not specifically reserved. Net loan charge-offs for the twelve months ended December 31, 2016 totaled $2.7 million as compared to $3.1 million for the same period in 2015. Total portfolio loans increased by $266.4 million during the twelve months ended December 31, 2016 as compared to $192.5 million (excluding loans acquired in the CBH Merger) for the same period in 2015. As of December 31, 2016, the Allowance of $17.5 million represents 0.69% of portfolio loans and leases, as compared to the Allowance as of December 31, 2015 of $15.9 million, which represented 0.70% of portfolio loans and leases as of that date.

As of December 31, 2016, the Corporation had other real estate owned ("OREO") valued at $1.0 million, as compared to $2.6 million as of December 31, 2015. The decrease was related to the sale, during 2016, of one residential property, carried at $1.8 million, which resulted in a $76 thousand loss on sale, partially offset by the addition of two residential properties totaling $355 thousand. In addition, $111 thousand in impairment was recorded on the OREO portfolio based on updated property appraisals or agreements of sale. The properties comprising the balance as of December 31, 2016 include seven single-family residential properties. All properties are recorded at their estimated fair values less costs to sell.

As of December 31, 2016, the Corporation had $9.0 million of TDRs, of which $6.4 million were in compliance with the modified terms for six months or greater, and hence, excluded from non-performing loans and leases. As of December 31, 2015, the Corporation had $6.8 million of TDRs, of which $4.9 million were in compliance with the modified terms.

Table of Contents

Impaired loans and leases are those for which it is probable that the Corporation will not be able to collect all scheduled principal and interest payments in accordance with the original terms of the loans and leases. Included in impaired loans and leases are non-accrual loans and leases and TDRs in compliance with modified terms. Purchased credit-impaired loans are not included in impaired loan and lease totals. As of December 31, 2016, the Corporation had $14.4 million of impaired loans and leases, as compared to impaired loans and leases of $14.5 million as of December 31, 2015. Refer to Note 5-H in the Notes to Consolidated Financial Statements for more information regarding the Corporation's impaired loans and leases.

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

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

(dollars in thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
Non-accrual loans and leases	$8,363	$10,244	$10,096	$10,530	$14,040
Loans 90 days or more past due and still accruing	—	—	—	—	728
Total non-performing loans and leases	8,363	10,244	10,096	10,530	14,768
Other real estate owned	1,017	2,638	1,147	855	906
Total non-performing assets	$9,380	$12,882	$11,243	$11,385	$15,674
Troubled debt restructurings included in non-performing assets	$2,632	$1,935	$4,315	$1,699	$3,106
TDRs in compliance with modified terms	6,395	4,880	4,157	7,277	8,008
Total TDRs	$9,027	$6,815	$8,472	$8,976	$11,114
Allowance for loan and lease losses to non-performing loans and leases	209.1 %	154.8 %	144.5 %	147.3 %	97.7 %
Non-performing loans and leases to total loans and leases	0.33 %	0.45 %	0.61 %	0.68 %	1.06 %
Allowance for loan losses to total portfolio loans and leases	0.69 %	0.70 %	0.88 %	1.00 %	1.03 %
Non-performing assets to total assets	0.27 %	0.43 %	0.50 %	0.55 %	0.77 %
Period end portfolio loans and leases	$2,535,425	$2,268,988	$1,652,257	$1,547,185	$1,398,456
Average portfolio loans and leases	$2,506,376	$2,153,542	$1,608,248	$1,453,555	$1,307,140
Allowance for loan and lease losses	$17,486	$15,857	$14,586	$15,515	$14,425

Interest income that would have been recorded on impaired loans if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination	$1,098	$1,100	$533	$1,074	$1,417
Interest income on impaired loans included in net income for the period	$552	$513	$341	$365	$507

As of December 31, 2016, the Corporation is not aware of any loan or lease, other than those disclosed in the table above, for which it has any serious doubt as to the borrower's ability to pay in accordance with the terms of the loan.

Summary of Changes in the Allowance for Loan and Lease Losses

(dollars in thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
Balance, January 1	$15,857	$14,586	$15,515	$14,425	$12,753
Charge-offs:					
Consumer	(173)	(177)	(144)	(194)	(96)
Commercial and industrial	(1,298)	(1,220)	(415)	(781)	(458)
Real estate	(1,008)	(1,615)	(1,231)	(891)	(818)
Construction	—	—	—	(737)	(1,131)
Leases	(808)	(442)	(410)	(376)	(364)
Total charge-offs	(3,287)	(3,454)	(2,200)	(2,979)	(2,867)
Recoveries:					
Consumer	23	29	17	10	7
Commercial and industrial	93	35	98	65	143
Real estate	178	160	47	105	79
Construction	64	4	60	24	15
Leases	232	101	165	290	292
Total Recoveries	590	329	387	494	536
Net charge-offs	(2,697)	(3,125)	(1,813)	(2,485)	(2,331)
Provision for loan and lease losses	4,326	4,396	884	3,575	4,003
Balance, December 31	$17,486	$15,857	$14,586	$15,515	$14,425
Ratio of net charge-offs to average portfolio loans outstanding	0.17 %	0.15 %	0.11 %	0.17 %	0.18 %

Table of Contents

Allocation of Allowance for Loan and Lease Losses

The following table sets forth an allocation of the allowance for loan and lease losses by portfolio segment. The specific allocations in any particular portfolio segment may be changed in the future to reflect then-current conditions. Accordingly, the Corporation considers the entire allowance to be available to absorb losses in any portfolio segment.

	December 31, 2016		2015		2014		2013		2012	
(dollars in thousands)		% Loans to Total Loans		% Loans to Total Loans		% Loans to Total Loans		% Loans to Total Loans		% Loans to Total Loans
Allowance at end of period applicable to:										
Commercial mortgage	$6,227	43.8 %	$5,199	42.5 %	$3,948	41.8 %	$3,797	40.4 %	$3,907	39.1 %
Home equity lines and loans	1,255	8.2	1,307	9.2	1,917	11.0	2,204	12.3	1,857	13.9
Residential mortgage	1,917	16.3	1,740	17.9	1,736	19.0	2,446	19.4	2,024	20.6
Construction	2,233	5.6	1,324	4.0	1,367	4.0	845	3.0	1,019	1.9
Commercial and industrial	5,142	22.9	5,609	23.1	4,533	20.3	5,011	21.2	4,637	20.9
Consumer	153	1.0	142	1.0	238	1.1	259	1.1	189	1.3
Leases	559	2.2	518	2.3	468	2.8	604	2.6	493	2.3
Unallocated	—	—	18	—	379	—	349	—	299	—
Total	$17,486	100.0 %	$15,857	100.0 %	$14,586	100.0 %	$15,515	100.0 %	$14,425	100.0 %

Non-Interest Income

2016 Compared to 2015

Non-interest income for the twelve months ended December 31, 2016 was $54.0 million, a decrease of $1.9 million as compared to the same period in 2015. The decrease was related to a $1.0 million decrease in gain on sale of available for sale investment securities, a $319 thousand decrease in dividends on FHLB and FRB stocks and a $204 thousand decrease in fees for wealth management services. The decrease in gain on sale of available for sale investment securities resulted from the very limited sales during the twelve months ended December 31, 2016, which resulted in a loss on sale of $77 thousand as compared to the sale of $64.0 million of available for sale investment securities sold during the same period in 2015, which resulted in a gain on sale of $931 thousand. The majority of the investments sold in 2015 had been acquired in the CBH Merger and were strategically sold to shorten the duration of the portfolio. The $319 thousand decrease in dividends on FHLB and FRB stocks occurred due to the special dividend paid on FHLB stock in 2015 which was not repeated in 2016. The $204 thousand decrease in fees for wealth management services was related to the shift in the composition of the wealth management portfolio, with more of the portfolio being comprised of assets held in lower-yielding fixed-fee accounts as of December 31, 2016 as compared to December 31, 2015.

2015 Compared to 2014

Non-interest income for the twelve months ended December 31, 2015 was $56.0 million, an increase of $7.6 million as compared to the same period in 2014. The increase related to $2.6 million in insurance commissions, $1.8 million in other operating income, $1.3 million in net gain on sale of loans, $767 thousand in dividends on bank stocks and $450 thousand in gain on sale of available for sale investment securities.

The $2.6 million increase in insurance commissions is related to the acquisitions of PCPB in October 2014 and RJM in April 2015. The two acquisitions have contributed a valuable source of noninterest income. The $1.8 million increase in other operating income (detailed in Note 21 of the Notes to Financial Statements) included a $468 thousand increase in bank owned life insurance ("BOLI") income related to the $12.1 million of BOLI acquired in the CBH Merger and the $5.0 million of BOLI purchased in July 2015. Other components of other operating income related to loan, deposit and merchant fees increased as a result of the increased customer volume from the CBH Merger. The increase in gain on sale of loans resulted from the success of the mortgage banking initiative which began toward the end of 2014. The increase in dividends on bank stocks (FHLB and FRB) was primarily related to a special dividend received from the FHLB in the first quarter of 2015.

Non-Interest Expense

2016 Compared to 2015

Non-interest expense for the twelve months ended December 31, 2016 was $101.7 million, a decrease of $24.0 million, as compared to the same period in 2015. The primary driver for the decrease related to the $17.4 million loss on settlement of the corporate pension plan and the $6.7 million of due diligence, merger-related and merger integration expenses which had been recorded in the twelve months ended December 31, 2015 but not repeated in 2016. Decreases in several other noninterest expense categories also occurred as the efficiencies and cost-saves related to the CBH Merger began to be realized. Partially offsetting these decreases was a $2.8 million increase in salaries and wages related to annual salary increases, incentive increases and the hiring of several new senior and executive officers during 2016.

2015 Compared to 2014

Non-interest expense for the twelve months ended December 31, 2015 was $125.8 million, an increase of $44.3 million, as compared to the same period in 2014. The most significant item contributing to the increase in non-interest expense was the $17.4 million loss on settlement of the pension plan which had been frozen in March 2008. The decision to settle the pension plan was made in order to eliminate the earnings volatility associated with a defined benefit program. In addition, due diligence, merger-related and merger integration expenses increased $4.3 million for the twelve months ended December 31, 2015 as compared to the same period in 2014. The majority of the costs were related to the CBH Merger, which closed on January 1, 2015 and integration of CBH into the Corporation which was completed during the fourth quarter of 2015. Also, related to the CBH Merger, a $929 thousand lease termination penalty in connection with the former CBH headquarters along with the impairment of a favorable lease asset related to the same property were incurred. Many of the other increases in non-interest expense categories were related to the staff and facilities acquired in the CBH Merger. These categories include salaries and wages, employee benefits and occupancy and bank premises.

Secondary Market Sold-Loan Repurchase Demands

In the course of originating residential mortgage loans and selling those loans in the secondary market, the Corporation makes various representations and warranties to the purchasers of the mortgage loans. Each residential mortgage loan originated by the Corporation is evaluated by an automated underwriting application, which verifies the underwriting criteria and certifies the loan's eligibility for sale to the secondary market. Any exceptions discovered during this process are remedied prior to sale. These representations and warranties also apply to underwriting the real estate appraisal opinion of value for the collateral securing these loans. Under the representations and warranties, failure by the Corporation to comply with the underwriting and appraisal standards could result in the Corporation's being required to repurchase the mortgage loan or to reimburse the investor for losses incurred (make whole requests) if such failure cannot be cured by the Corporation within the specified period following discovery. As of December 31, 2016, there were no pending or unsettled loan repurchase demands. No repurchase demands were received during the twelve months ended December 31, 2016.

Income Taxes

Income taxes for the twelve months ended December 31, 2016 were $18.2 million as compared to $9.2 million and $15.0 million for the same periods in 2015 and 2014, respectively. The effective tax rates for the twelve month periods ended December 31, 2016, 2015 and 2014 were 33.5%, 35.4% and 35.0%, respectively. The decrease in effective tax rate for 2016 as compared to 2015 was largely related to the $565 thousand in excess tax benefit on stock-based compensation, which is recognized on the income statement by way of the early adoption of ASU 2016-09. In addition, for the twelve months ended December 31, 2015, there was $300 thousand of non-deductible merger expenses which were not present in 2016. The increase in effective tax rate for 2015 as compared to 2014 was related to increases in state income taxes, partially offset by increases in tax-free income from BOLI, tax-free loans and municipal investments. For more information related to income taxes, refer to Note 18 in the Notes to Consolidated Financial Statements.

Balance Sheet Analysis

Asset Changes

Total assets as of December 31, 2016 increased to $3.42 billion from $3.03 billion as of December 31, 2015. The $390.5 million increase was related to the $266.4 million increase in portfolio loans and the $218.0 million increase in investment securities available for sale. These increases were partially offset by a $92.3 million decrease in cash and cash equivalents.

Table of Contents

As of both December 31, 2016 and 2015, the majority of the Corporation's investment securities were classified as available for sale. Investments held in trading accounts as of December 31, 2016 and 2015, which totaled $3.9 million and $4.0 million, respectively, and were comprised of deferred compensation trusts which are invested in marketable securities whose diversification is at the discretion of the deferred compensation plan participants. In addition, as of December 31, 2016, $2.9 million of investment securities were classified as held to maturity.

The following table details the maturity and weighted average yield [3] of the available for sale investment portfolio [2] as of December 31, 2016:

(dollars in thousands)	**Maturing During 2017**	**Maturing From 2018 Through 2021**	**Maturing From 2022 Through 2026**	**Maturing After 2026**	**Total**
U.S. Treasury securities:					
Amortized cost	$ 199,993	$ 101	$ —	$ —	$ 200,094
Weighted average yield	0.32 %	1.03 %			0.32 %
Obligations of the U.S. government and agencies:					
Amortized cost	5,010	18,331	41,691	18,079	83,111
Weighted average yield	0.79 %	1.55 %	1.97 %	2.69	1.96 %
State and political subdivisions[3]:					
Amortized cost	8,173	21,304	4,148	—	33,625
Weighted average yield	1.06 %	1.44 %	1.77 %		1.39 %
Mortgage-related securities[1]:					
Amortized cost	—	16,535	42,509	176,441	235,485
Weighted average yield		2.46 %	2.49 %	2.23 %	2.29 %
Other investment securities:					
Amortized cost	700	600	—	—	1,300
Weighted average yield	1.38 %	2.22 %			1.77 %
Total amortized cost	$ 213,876	$ 56,871	$ 88,348	$ 194,520	$ 553,615
Weighted average yield	0.36 %	1.78 %	2.21 %	2.27 %	1.47 %

(1) *Mortgage-related securities are included in the above table based on their contractual maturity. However, mortgage-related securities, by design, have scheduled monthly principal payments which are not reflected in this table.*

(2)

Excluded from the above table is the Corporation's investment in bond mutual funds with an amortized cost of $15.3 million, which have no stated maturity or constant stated yield.

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

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

	Amortized Cost as of December 31,		
(dollars in thousands)	2016	2015	2014
Obligations of the U.S. government and agencies	$83,111	$101,342	$66,881
Obligations of the U.S. Treasury	200,094	101	102
Obligations of state and political subdivisions	33,625	41,892	28,955
Mortgage-backed securities	185,997	157,422	79,498
Collateralized mortgage obligations	49,488	29,756	34,618
Other investments	16,575	17,263	17,499
Total amortized cost	$568,890	$347,776	$227,553

Portfolio Loans and Leases

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

	December 31,				
(dollars in thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
Commercial mortgage	$1,110,898	$964,259	$689,528	$625,341	$546,358
Home equity lines & loans	207,999	209,473	182,082	189,571	194,861
Residential mortgage	413,540	406,404	313,442	300,243	288,212
Construction	141,964	90,421	66,267	46,369	26,908
Commercial & industrial	579,791	524,515	335,645	328,459	291,620
Consumer	25,341	22,129	18,480	16,926	17,666
Leases	55,892	51,787	46,813	40,276	32,831
Total portfolio loans and leases	2,535,425	2,268,988	1,652,257	1,547,185	1,398,456
Loans held for sale	9,621	8,987	3,882	1,350	3,412
Total	$2,545,046	$2,277,975	$1,656,139	$1,548,535	$1,401,868

Table of Contents

The following table summarizes the loan maturity distribution and interest rate sensitivity as of December 31, 2016. Excluded from the table are residential mortgage, home equity lines and loans and consumer loans:

(dollars in thousands)	**Maturing During 2017**	**Maturing From 2018 Through 2021**	**Maturing After 2021**	**Total**
Loan portfolio maturity:				
Commercial and industrial	$235,267	$173,019	$171,505	$579,791
Construction	109,213	32,751	—	141,964
Commercial mortgage	52,322	354,441	704,135	1,110,898
Leases	3,822	51,996	74	55,892
Total	$400,624	$612,207	$875,714	$1,888,545
Interest sensitivity on the above loans:				
Loans with predetermined rates	$115,536	$442,744	$288,719	$846,999
Loans with adjustable or floating rates	285,088	169,463	586,995	1,041,546
Total	$400,624	$612,207	$875,714	$1,888,545

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

Portfolio Loans and Leases – The Corporation's $2.54 billion loan and lease portfolio is predominantly based in the Corporation's traditional market areas of Chester, Delaware and Montgomery counties in Pennsylvania, New Castle county in Delaware, and in the greater Philadelphia area, none of which has experienced the real estate price appreciation and subsequent decline that many other areas of the country have experienced over the last ten years.

Concentrations – The Corporation has a significant portion of its portfolio loans (excluding leases) in real estate-related loans. As of December 31, 2016, loans secured by real estate were $1.87 billion or 73.9% of the total loan portfolio of $2.54 billion. A predominant percentage of the Corporation's real estate exposure, both commercial and residential, is within Pennsylvania. The Corporation is aware of this concentration and mitigates this risk to the extent possible in many ways, including the underwriting and assessment of the borrower's capacity to repay, equity in the underlying real estate collateral and a review of a borrower's global cash flows. The Corporation has recourse against a substantial portion of the loans in the real estate portfolio.

In addition to loans secured by real estate, commercial and industrial loans comprise 22.9% of the total loan portfolio as of December 31, 2016.

Construction – The construction portfolio of $142.0 million accounts for 5.6% of the total loan and lease portfolio at December 31, 2016, an increase of $51.5 million from December 31, 2015. The construction loan segment of the portfolio, which consists of residential site development loans, commercial construction loans and loans for construction of individual homes, had no delinquent or nonperforming loans as of both December 31, 2016. Nonperforming construction loans comprised 0.04% of the construction segment of the portfolio as of December 31, 2015.

Residential Mortgages – Residential mortgage loans were $413.5 million as of December 31, 2016, an increase of $7.1 million from December 31, 2015. The residential mortgage segment accounts for 16.3% of the total loan and lease portfolio as of December 31, 2016. The residential mortgage segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2016, of 0.32%, as compared to 0.50% as of December 31, 2015. Nonperforming residential mortgage loans comprised 0.64% of the residential mortgage segment of the portfolio as of December 31, 2016, as compared to 0.79% as of December 31, 2015. The Corporation believes it is well protected with its collateral position on this portfolio.

Commercial Mortgages – Commercial mortgages were $1.11 billion as of December 31, 2016, an increase of $146.6 million from December 31, 2015. The Corporation has made a concerted effort, over several operating cycles, to attract strong commercial real estate entrepreneurs in its primary trade area. The commercial mortgage segment accounts for 43.8% of the total loan and lease portfolio as of December 31, 2016. The commercial mortgage segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2016, of 0.12%, as compared to 0.14% as of December 31, 2015. Nonperforming commercial mortgage loans comprised 0.03% of the commercial mortgage segment of the portfolio as of December 31, 2016, as compared to 0.09% as of December 31, 2015. The borrowers comprising this segment of the portfolio generally have strong, global cash flows, which have remained stable in this tough economic environment.

Table of Contents

Commercial and Industrial – Commercial and industrial loans were $579.8 million as of December 31, 2016, an increase of $55.3 million from December 31, 2015. The commercial and industrial segment accounts for 22.9% of the total loan and lease portfolio as of December 31, 2016. The commercial and industrial segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2016, of 0.01%, as compared to 0.03% as of December 31, 2015. Nonperforming commercial and industrial loans comprised 0.51% of the commercial and industrial segment of the portfolio as of December 31, 2016, as compared to 0.79% as of December 31, 2015. The commercial and industrial segment of the portfolio consists of loans to privately held institutions, family businesses, non-profit institutions and private banking relationships. While certain of these loans are collateralized by real estate, others are collateralized by non-real estate business assets, including accounts receivable and inventory.

Home Equity Loans and Lines of Credit – Home equity loans and lines of credit were $208.0 million as of December 31, 2016, a decrease of $1.5 million from December 31, 2015. The home equity loans and lines of credit segment accounts for 8.2% of the total loan and lease portfolio as of December 31, 2016. The home equity loans and lines of credit segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2016, of 0.01%, as compared to 0.78% as of December 31, 2015. Nonperforming home equity loans and lines of credit comprised 1.10% of the home equity loans and lines of credit segment of the portfolio as of December 31, 2016, as compared to 0.97% as of December 31, 2015. The Corporation originates the majority of its home equity loans and lines of credit through its branch network.

Consumer loans – Consumer loans were $25.3 million as of December 31, 2016, an increase of $3.2 million from December 31, 2015. The consumer loan segment accounted for 1.0% of the total loan and lease portfolio as of December 31, 2016. The consumer loan segment of the portfolio had a delinquency rate on performing loans, as of December 31, 2016, of 0.06%, as compared to 0.12% as of December 31, 2015. Nonperforming consumer loans comprised 0.01% of the consumer loan segment of the portfolio as of December 31, 2016, as compared to 0.00% as of December 31, 2015.

Leasing – Leases totaled $55.9 million as of December 31, 2016, an increase of $4.1 million from December 31, 2015. The lease segment of the portfolio accounted for 2.2% of the total loan and lease portfolio as of December 31, 2016. The lease segment of the portfolio had a delinquency rate on performing leases, as of December 31, 2016, of 0.47%, as compared to 0.96% as of December 31, 2015. Nonperforming leases comprised 0.24% of the leasing segment of the portfolio as of December 31, 2016, as compared to 0.02% as of December 31, 2015.

Goodwill and Other Intangible Assets – Goodwill as of December 31, 2016 was unchanged at $104.8 million from December 31, 2015. Other intangible assets decreased by $3.5 million from December 31, 2015 to December 31, 2016, through amortization. For more information regarding goodwill and other intangible assets, see Notes 2 and 3 in the Notes to Consolidated Financial Statements for additional details.

FHLB Stock - The Corporation’s investment in stock issued by the FHLB as of December 31, 2016 increased by $4.4 million, from December 31, 2015. The Corporation must purchase, or the FHLB must redeem, its stock based on the

Corporation's borrowings balance with the FHLB.

Mortgage Servicing Rights ("MSRs") - MSRs increased $440 thousand to $5.6 million as of December 31, 2016 from $5.1 million as of December 31, 2015. This increase was the result of $1.3 million of MSRs recorded during the twelve months ended December 31, 2016, reduced by amortization of $750 thousand and impairment of $131 thousand during the period.

Table of Contents

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

(dollars in thousands)	For the Twelve Months Ended or as of December 31, 2016	2015	2014
Mortgage originations	$280,059	$231,049	$117,257
Mortgage loans sold:			
Servicing retained	$138,134	$107,351	$54,859
Servicing released	22,829	29,630	783
Total mortgage loans sold	$160,963	$136,981	$55,642
Percentage of originated mortgage loans sold	57.5 %	59.3 %	47.5 %
Servicing retained %	85.8 %	78.4 %	98.6 %
Servicing released %	14.2 %	21.6 %	1.4 %
Residential mortgage loans serviced for others	$631,889	$601,939	$590,660
Mortgage servicing rights	$5,582	$5,142	$4,765
Gain on sale of mortgage loans	$2,765	$2,501	$1,772
Loans servicing and other fees	$1,939	$2,087	$1,755
Amortization of MSRs	$750	$590	$476
Impairment of MSRs	$131	$70	$56

Liability Changes

Total liabilities as of December 31, 2016 increased $375.1 million, to $3.04 billion from December 31, 2015. The increase was largely related to the $327.0 million increase in deposits between the dates.

Deposits - Deposits of $2.58 billion, as of December 31, 2016, increased $327.0 million from December 31, 2015. The 14.5% increase was comprised of increases of $109.5 million and 217.5 million in noninterest-bearing and interest-bearing deposits, respectively.

The following table details deposits as of the dates indicated:

	As of December 31,				
(dollars in thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
Interest-bearing checking	$379,424	$338,861	$277,228	$266,787	$270,279
Money market	761,657	749,726	566,354	544,310	559,470
Savings	232,193	187,299	138,992	135,240	129,091
Wholesale – non-maturity	74,272	67,717	66,693	42,936	45,162
Wholesale – time deposits	73,037	53,185	73,458	34,640	12,421
Time deposits	322,912	229,253	118,400	140,794	218,586
Interest-bearing deposits	$1,843,495	$1,626,041	$1,241,125	$1,164,707	$1,235,009
Non-interest-bearing deposits	736,180	626,684	446,903	426,640	399,673
Total deposits	$2,579,675	$2,252,725	$1,688,028	$1,591,347	$1,634,682

The following table summarizes the maturities of certificates of deposit of $100,000 or greater at December 31, 2016:

(dollars in thousands)	**Retail**	**Wholesale**
Three months or less	$20,474	$ 26,614
Three to six months	64,843	30,950
Six to twelve months	69,648	15,219
Greater than twelve months	28,671	—
Total	$183,636	$ 72,783

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

Table of Contents

Borrowings - Short-term borrowings as of December 31, 2016, which include repurchase agreements, a repurchase agreement with a correspondent bank, overnight FHLB advances and federal funds from correspondent banks increased $110.0 million from December 31, 2015. As of December 31, 2016, long-term FHLB advances decreased $65.1 million from December 31, 2015. See the Liquidity Section of this MD&A under the heading “Liquidity” for further details on the Corporation’s FHLB available borrowing capacity.

Subordinated Notes – Subordinated notes, as of December 31, 2016, totaled $29.5 million and were comprised of 10-year 4.75% fixed-to-floating notes which were originated in August 2015.

Discussion of Segments

The Corporation has two operating segments: Wealth Management and Banking. These segments are discussed below. Detailed segment information appears in Note 29 in the Notes to Consolidated Financial Statements.

Wealth Management Segment Activity

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

The Wealth Management segment reported a PTSP for the twelve months ended December 31, 2015 of $15.7 million, a $289 thousand, or 1.9%, increase from the same period in 2014. Fees for wealth management services for 2015 increased by $120 thousand from the amount recorded in 2014. The relatively small increase in fees, year over year, despite the $664.9 million increase in wealth assets from December 31, 2014 to December 31, 2015, was related a shift, during 2015, in the composition of the wealth portfolio. Much of the increase in wealth assets during 2015 was comprised of accounts with flat-fee arrangements, rather than market-based fees. The insurance division, which is reported as part of the Wealth Management segment, showed a $2.5 million increase in revenue for the twelve months ended December 31, 2015 as compared to the same period in 2014. The increase in insurance revenue was the result of the PCPB and RJM acquisitions in October 2014 and April 2015, respectively.

Wealth Assets Under Management, Administration, Supervision and Brokerage ("Wealth Assets")

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

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

(dollars in thousands)	**Wealth Assets as of:**		
Fee Basis	December 31, 2016	December 31, 2015	December 31, 2014
Market value	$5,302,463	$4,971,636	$5,256,892
Fixed	6,025,994	3,393,169	2,443,016
	$11,328,457	$8,364,805	$7,699,908

(dollars in thousands)	**Percentage of Wealth Assets as of:**		
Fee Basis	December 31, 2016	December 31, 2015	December 31, 2014
Market value	46.8 %	59.4 %	68.3 %
Fixed	53.2 %	40.6 %	31.7 %
	100.0 %	100.0 %	100.0 %

Table of Contents

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

(dollars in thousands)	**For the Twelve Months Ended:**		
Fee Basis	December 31, 2016	December 31, 2015	December 31, 2014
Market value	$28,418	$ 29,219	$ 29,926
Fixed	8,272	7,675	6,848
	$36,690	$ 36,894	$ 36,774

(dollars in thousands)	**Percentage of Fees for Wealth Management Services:**		
Fee Basis	December 31, 2016	December 31, 2015	December 31, 2014
Market value	77.5 %	79.2 %	81.4 %
Fixed	22.5 %	20.8 %	18.6 %
	100.0 %	100.0 %	100.0 %

Banking Segment Activity

Banking segment data as presented in Note 29 in the Notes to Consolidated Financial Statements indicates a PTSP of $39.8 million in 2016, $10.2 million in 2015 and $27.4 million in 2014. See the section of this MD&A under the heading “Components of Net Income” for a discussion of the Banking Segment.

Capital and Regulatory Capital Ratios

Consolidated shareholders’ equity of the Corporation was $381.1 million, or 11.1% of total assets, as of December 31, 2016, as compared to $365.7 million, or 12.1% of total assets, as of December 31, 2015.

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

In addition, the Corporation has in place under its Shelf Registration Statement a Dividend Reinvestment and Stock Purchase Plan (the "Plan"), which allows it to issue up to 1,500,000 shares of registered common stock. The Plan allows for the grant of a request for waiver ("RFW") above the Plan's maximum investment of $120 thousand per account per year. An RFW is granted based on a variety of factors, including the Corporation's current and projected capital needs, prevailing market prices of the Corporation's common stock and general economic and market conditions.

For the twelve months ended December 31, 2016, no shares were issued by the Corporation through the Plan. No RFWs were approved during the twelve months ended December 31, 2016. No other sales of securities were executed under the Shelf Registration Statement during the twelve months ended December 31, 2016.

Accumulated other comprehensive loss ("AOCL"), as of December 31, 2016 was $2.4 million, an increase of $2.0 million from December 31, 2015. The primary cause of the increase in AOCL was the increase in unrealized losses on available for sale investment securities, whose fair values were affected by rising interest rates toward the end of 2016.

As detailed in Note 26-E in the Notes to Consolidated Financial Statements, the capital ratios, as of December 31, 2016, of the Corporation decreased from their December 31, 2015 levels. The primary cause for this decrease was the $390.5 million increase in total assets between the dates. Conversely, the capital ratios of the Bank have increased from their December 31, 2015 levels largely as a result of a $15 million downstream of capital from the Corporation during the first quarter of 2016.

Both the Corporation and the Bank exceeded the required capital levels to be considered "Well Capitalized" by their respective regulators as of the end of each period presented.

Table of Contents

Liquidity

The Corporation has significant sources of liquidity at December 31, 2016. The liquidity position is managed on a daily basis as part of the daily settlement function and on a monthly basis as part of the asset liability management process. The Corporation's primary liquidity is maintained by managing its deposits along with the utilization of borrowings from the FHLB, purchased federal funds and utilization of other wholesale funding sources. Secondary sources of liquidity include the sale of investment securities and certain loans in the secondary market.

Other wholesale funding sources include certificates of deposit from brokers, generally available in blocks of $1.0 million or more. Funds obtained through these programs totaled $73.0 million as of December 31, 2016.

As of December 31, 2016, the maximum borrowing capacity with the FHLB was $1.22 billion, with an unused borrowing availability of $886.0 million. Borrowing availability at the Federal Reserve Discount Window was $117.3 million, and overnight Fed Funds lines, consisting of lines from seven banks, totaled $79.0 million. On a monthly basis, the Corporation's Asset Liability Committee reviews the Corporation's liquidity needs. This information is reported to the Risk Management Committee of the Board of Directors on a quarterly basis.

As of December 31, 2016, the Corporation held $17.3 million of FHLB stock as required by the borrowing agreement between the FHLB and the Corporation.

The Corporation has an agreement with CDC to provide up to $5 million, plus interest, of money market deposits at an agreed upon rate currently at 0.40%. The Corporation had $538 thousand in balances as of December 31, 2016 under this program. The Corporation can request an increase in the agreement amount as it deems necessary. In addition, the Corporation has an agreement with IND to provide up to $50 million, plus interest, of money market and NOW funds at an agreed upon interest rate equal to the current Fed Funds rate plus 20 basis points. The Corporation had $47.0 million in balances as of December 31, 2016 under this program.

The Corporation's available for sale investment portfolio of $567.0 million as of December 31, 2016 was 16.6% of total assets. Some of these investments were in short-term, high-quality, liquid investments to earn more than the 25 basis points currently earned on Fed Funds. The Corporation's policy is to maintain its investment portfolio at a minimum level of 10% of total assets. The portion of the investment portfolio that is not already pledged against borrowings from the FHLB or other funding sources, provides the Corporation with the ability to utilize the securities to borrow additional funds through the FHLB, Federal Reserve or through other repurchase agreements.

The Corporation continually evaluates its borrowing capacity and sources of liquidity. The Corporation believes that it has sufficient capacity to fund expected 2017 earning asset growth with wholesale sources, along with deposit growth from its branch system.

Off Balance Sheet Risk

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement.

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

The following chart presents the off-balance sheet commitments of the Corporation as of December 31, 2016, listed by dates of funding or payment:

(dollars in millions)	**Total**	**Within 1 Year**	**2 - 3 Years**	**4 - 5 Years**	**After 5 Years**
Unfunded loan commitments	$675.4	$380.0	$119.2	$15.5	$160.7
Standby letters of credit	12.7	11.5	0.7	0.2	0.3
Total	$688.1	$391.5	$119.9	$15.7	$161.0

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

Table of Contents

Contractual Cash Obligations of the Corporation as of December 31, 2016

(dollars in millions)	**Total**	**Within 1 Year**	**2 - 3 Years**	**4 - 5 Years**	**After 5 Years**
Deposits without a stated maturity					
Wholesale and retail certificates of deposit	395.9	335.0	46.4	14.5	—
Short-term borrowings	204.2	204.2	—	—	—
FHLB advances and other borrowings	189.7	75.0	102.2	12.5	—
Operating leases	31.5	4.2	8.1	6.1	13.1
Purchase obligations	8.1	2.3	2.9	2.9	—
Total	$829.4	$620.7	$159.6	$36.0	$13.1

Other Information

Effects of Inflation

Inflation has some impact on the Corporation's operating costs. Unlike many industrial companies, however, substantially all of the Corporation's assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on the Corporation's performance than the general level of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as prices of goods and services.

Effect of Government Monetary Policies

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

The Corporation is a member of the Federal Reserve System and, therefore, the policies and regulations of the Federal Reserve Board have a significant effect on its deposits, loans and investment growth, as well as the rate of interest earned and paid, and are expected to affect the Corporation's operations in the future. The effect of such policies and regulations upon the future business and earnings of the Corporation cannot be predicted.

ITEM 7A. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following audited consolidated financial statements and related documents are set forth in this Annual Report on Form 10-K on the following pages:

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Bryn Mawr Bank Corporation:

We have audited the accompanying consolidated balance sheets of Bryn Mawr Bank Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. We also have audited Bryn Mawr Bank Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Bryn Mawr Bank Corporation's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

Table of Contents

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bryn Mawr Bank Corporation and subsidiaries as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Bryn Mawr Bank Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

(signed) KPMG LLP

Philadelphia, Pennsylvania
March 10, 2017

Table of Contents

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2016	December 31, 2015
Assets		
Cash and due from banks	$16,559	$18,452
Interest bearing deposits with banks	34,206	124,615
Cash and cash equivalents	50,765	143,067
Investment securities available for sale, at fair value (amortized cost of $568,890 and $347,776 as of December 31, 2016 and December 31, 2015 respectively)	566,996	348,966
Investment securities held to maturity, at amortized cost (fair value of $2,818 and $0 as of December 31, 2016 and December 31, 2015, respectively)	2,879	-
Investment securities, trading	3,888	3,950
Loans held for sale	9,621	8,987
Portfolio loans and leases, originated	2,240,987	1,883,869
Portfolio loans and leases, acquired	294,438	385,119
Total portfolio loans and leases	2,535,425	2,268,988
Less: Allowance for originated loan and lease losses	(17,458)	(15,857)
Less: Allowance for acquired loan and lease losses	(28)	-
Total allowance for loans and lease losses	(17,486)	(15,857)
Net portfolio loans and leases	2,517,939	2,253,131
Premises and equipment, net	41,778	45,339
Accrued interest receivable	8,533	7,869
Mortgage servicing rights	5,582	5,142
Bank owned life insurance	39,279	38,371
Federal Home Loan Bank stock	17,305	12,942
Goodwill	104,765	104,765
Intangible assets	20,405	23,903
Other investments	8,627	9,460
Other assets	23,168	25,105
Total assets	$3,421,530	$3,030,997
Liabilities		
Deposits:		
Non-interest-bearing	$736,180	$626,684
Interest-bearing	1,843,495	1,626,041
Total deposits	2,579,675	2,252,725
Short-term borrowings	204,151	94,167
Long-term FHLB advances	189,742	254,863
Subordinated notes	29,532	29,479
Accrued interest payable	2,734	1,851
Other liabilities	34,569	32,201
Total liabilities	3,040,403	2,665,286
Shareholders' equity		

Common stock, par value $1; authorized 100,000,000 shares; issued 21,110,968 and 20,931,416 shares as of December 31, 2016 and December 31, 2015, respectively, and outstanding of 16,939,715 and 17,071,523 as of December 31, 2016 and December 31, 2015, respectively	21,111	20,931
Paid-in capital in excess of par value	232,806	228,814
Less: Common stock in treasury at cost - 4,171,253 and 3,859,893 shares as of December 31, 2016 and December 31, 2015, respectively	(66,950)	(58,144)
Accumulated other comprehensive loss, net of tax	(2,409)	(412)
Retained earnings	196,569	174,522
Total shareholders' equity	381,127	365,711
Total liabilities and shareholders' equity	$3,421,530	$3,030,997

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

Table of Contents

Consolidated Statements of Income

	Twelve Months Ended December 31,		
	2016	2015	2014
(dollars in thousands, except per share data)			
Interest income:			
Interest and fees on loans and leases	$110,536	$102,432	$78,541
Interest on cash and cash equivalents	168	409	193
Interest on investment securities:			
Taxable	5,575	5,018	3,596
Non-taxable	497	497	399
Dividends	215	186	177
Total interest income	116,991	108,542	82,906
Interest expense:			
Interest on deposits	5,833	4,212	2,898
Interest on short-term borrowings	93	48	17
Interest on FHLB advances and other borrowings	3,353	3,554	3,163
Interest on subordinated notes	1,476	601	-
Total interest expense	10,755	8,415	6,078
Net interest income	106,236	100,127	76,828
Provision for loan and lease losses	4,326	4,396	884
Net interest income after provision for loan and lease losses	101,910	95,731	75,944
Non-interest income:			
Fees for wealth management services	36,690	36,894	36,774
Insurance commissions	3,722	3,745	1,099
Service charges on deposits	2,791	2,927	2,578
Loan servicing and other fees	1,939	2,087	1,755
Net gain on sale of loans	3,119	3,022	1,772
Net (loss) gain on sale of investment securities available for sale	(77)	931	471
Net (loss) gain on sale of other real estate owned ("OREO")	(76)	123	175
Dividends on FHLB and FRB stock	1,063	1,382	615
Other operating income	4,868	4,849	3,083
Total non-interest income	54,039	55,960	48,322
Non-interest expenses:			
Salaries and wages	47,411	44,575	37,113
Employee benefits	9,548	10,205	7,340
Loss on pension plan settlement	-	17,377	-
Occupancy and bank premises	9,611	10,305	7,305
Branch lease termination expense	-	929	-
Furniture, fixtures, and equipment	7,520	6,841	4,508
Advertising	1,381	2,102	1,504
Amortization of intangible assets	3,498	3,827	2,659
Impairment of intangible assets	-	387	-

Due diligence, merger-related and merger integration expenses	-	6,670	2,373
Professional fees	3,659	3,353	3,017
Pennsylvania bank shares tax	1,749	1,253	1,256
Information technology	3,661	3,443	2,771
Other operating expenses	13,707	14,498	11,572
Total non-interest expenses	101,745	125,765	81,418
Income before income taxes	54,204	25,926	42,848
Income tax expense	18,168	9,172	15,005
Net income	$36,036	$16,754	$27,843
Basic earnings per common share	$2.14	$0.96	$2.05
Diluted earnings per common share	$2.12	$0.94	$2.01
Dividends declared per share	$0.82	$0.78	$0.74
Weighted-average basic shares outstanding	16,859,623	17,488,325	13,566,239
Dilutive shares	168,499	267,996	294,801
Adjusted weighted-average diluted shares	17,028,122	17,756,321	13,861,040

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

Table of Contents

Consolidated Statements of Comprehensive Income

(dollars in thousands)	**Twelve Months Ended December 31,**		
	2016	**2015**	**2014**
Net income	$36,036	$16,754	$27,843
Other comprehensive income (loss):			
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 $(1,053), $(618) and $1,335, respectively	(1,955)	(1,147)	1,867
Less: reclassification adjustment for net losses (gains) on sales realized in net income, net of tax benefit (expense) of $27, $(326), and $(165), respectively	50	(605)	(306)
Unrealized investment (losses) gains, net of tax (benefit) expense of $(1,079), $(292) and $1,170, respectively	(2,005)	(542)	2,173
Net change in fair value of derivative used for cash flow hedge:			
Net unrealized losses arising during the period, net of tax benefit of $0, $(228) and $(413), respectively	-	(422)	(768)
Less: realized loss on cash flow hedge reclassified to earnings, net of tax benefit of $0, $214, and $0, respectively	-	397	-
Change in fair value of hedging instruments, net of tax expense (benefit) of $0, $14 and $(413), respectively	-	25	(768)
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 (benefit) of $5, $264 and $(4,063), respectively	8	514	(7,544)
Change in unfunded pension liability related to settlement of pension plan, net of tax expense of $0, $6,082 and $0	-	11,295	-
Total change in unfunded pension liability, net of tax expense (benefit) of $5, $6,346 and $(4,063), respectively	8	11,809	(7,544)
Total other comprehensive income (loss)	(1,997)	11,292	(6,139)

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

Table of Contents

Consolidated Statements of Cash Flows

(dollars in thousands)	**Twelve Months Ended December 31,**		
	2016	**2015**	**2014**
Operating activities:			
Net Income	$36,036	$16,754	$27,843
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	4,326	4,396	884
Depreciation of fixed assets	5,630	4,925	3,486
Net amortization of investment premiums and discounts	3,200	3,280	2,299
Net loss on settlement of pension plan	-	17,377	-
Net loss (gain) on sale of investment securities available for sale	77	(931)	(471)
Net gain on sale of loans	(3,119)	(3,022)	(1,772)
Stock based compensation cost	1,713	1,441	1,256
Amortization and net impairment of mortgage servicing rights	880	661	532
Net accretion of fair value adjustments	(3,776)	(4,942)	(2,757)
Amortization of intangible assets	3,498	3,827	2,659
Impairment of intangible assets	-	387	-
Impairment of other real estate owned ("OREO")	94	90	-
Net loss (gain) on sale of OREO	76	(123)	(175)
Net increase in cash surrender value of bank owned life insurance ("BOLI")	(908)	(782)	(315)
Other, net	(899)	1,049	2,822
Loans originated for resale	(161,597)	(141,578)	(58,173)
Proceeds from loans sold	162,762	138,964	56,866
Provision for deferred income taxes	1,676	(2,834)	2,350
Excess tax benefit from stock-based compensation	-	(783)	(831)
Change in income taxes payable/receivable	4,340	(529)	808
Change in accrued interest receivable	(664)	(215)	168
Change in accrued interest payable	883	516	199
Net cash provided by operating activities	54,228	37,928	37,678
Investing activities:			
Purchases of investment securities available for sale	(350,669)	(176,034)	(45,199)
Purchases of investment securities held to maturity	(2,928)	-	-
Proceeds from maturity and paydowns of investment securities available for sale	65,176	66,209	40,801
Proceeds from maturity and paydowns of investment securities held to maturity	34	-	-
Proceeds from sale of investment securities available for sale	276	64,851	24,394
Net change in FHLB stock	(4,363)	3,562	131
Proceeds from calls of investment securities	60,840	104,240	37,750
Proceeds from sales of other investments	664	-	342
Net change in other investments	264	(4,184)	(789)
Net portfolio loan and lease originations	(266,331)	(194,066)	(105,918)
Purchases of premises and equipment	(2,207)	(7,611)	(5,455)
Purchases of BOLI	-	(5,000)	-

Acquisitions, net of cash acquired	-	16,129	(4,125)
Proceeds from sale of OREO	1,806	1,215	1,646
Net cash used in investing activities	(497,438)	(130,689)	(56,422)
Financing activities:			
Change in deposits	327,169	83,784	96,704
Change in short-term borrowings	109,995	(38,128)	12,933
Dividends paid	(13,961)	(13,837)	(10,189)
Change in long-term FHLB advances and other borrowings	(65,000)	(24,883)	54,623
Payment of contingent consideration for business combinations	(627)	(542)	-
Net proceeds from issuance of subordinated notes	-	29,456	-
Excess tax benefit from stock-based compensation	-	783	831
Cash payments to taxing authorities on employees' behalf from shares withheld from stock-based compensation	(745)	-	
Net (purchase of) proceeds from sale of treasury stock for deferred compensation plans	(133)	(128)	79
Net purchase of treasury stock through publicly announced plans	(7,971)	(26,418)	(947)
Proceeds from issuance of common stock	-	20	72
Proceeds from exercise of stock options	2,181	6,452	2,836
Net cash provided by financing activities	350,908	16,559	156,942
Change in cash and cash equivalents	(92,302)	(76,202)	138,198
Cash and cash equivalents at beginning of period	143,067	219,269	81,071
Cash and cash equivalents at end of period	$50,765	$143,067	$219,269
Supplemental cash flow information:			
Cash paid during the year for:			
Income taxes	$12,261	$11,703	$11,831
Interest	$9,872	$7,604	$5,879
Non-cash information:			
Change in other comprehensive loss	$(1,997)	$11,292	$(9,446)
Change in deferred tax due to change in comprehensive income	$(1,074)	$6,068	$(3,306)
Transfer of loans to other real estate owned and repossessed assets	$546	$2,283	$1,763
Issuance of shares and options for acquisitions	$-	$123,734	$-
Acquisition of noncash assets and liabilities:			
Assets acquired	$-	$727,908	$10,005
Liabilities assumed	$-	$620,303	$5,880

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

Table of Contents

Consolidated Statements of Changes in Shareholders' Equity

(dollars in thousands, except per share information)

	For the Years Ended December 31, 2014, 2015 and 2016						
	Shares of Common Stock Issued	**Common Stock**	**Paid-in Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Total Shareholders' Equity**
Balance December 31, 2013	16,596,869	$ 16,597	$ 95,673	$ (30,764)	$ (5,565)	$ 153,957	$ 229,898
Net income	-	-	-	-	-	27,843	27,843
Dividends declared, $0.74 per share	-	-	-	-	-	(10,208)	(10,208)
Other comprehensive loss, net of tax benefit of $3,307	-	-	-	-	(6,139)	-	(6,139)
Stock based compensation	-	-	1,256	-	-	-	1,256
Tax benefit from stock-based compensation	-	-	831	-	-	-	831
Retirement of treasury stock	(3,512)	(3)	(32)	35	-	-	-
Net purchase of treasury stock from stock award and deferred compensation plans..	-	-	45	(913)	-	-	(868)
Issuance costs - S-4 filing	-	-	(147)	-	-	-	(147)
Common stock issued:							-
Dividend Reinvestment and Stock Purchase Plan	2,517	2	70	-	-	-	72
Share-based awards and options exercises	146,261	146	2,790	-	-	-	2,936
Balance December 31, 2014	16,742,135	$ 16,742	$ 100,486	$ (31,642)	$ (11,704)	$ 171,592	$ 245,474
Net income	-	-	-	-	-	16,754	16,754
Dividends declared, $0.78 per share	-	-	-	-	-	(13,824)	(13,824)
Other comprehensive income, net of tax expense of $6,080	-	-	-	-	11,292	-	11,292
Stock based compensation	-	-	1,441	-	-	-	1,441

Excess tax benefit from stock-based compensation	-	-	783	-	-	-	783
Retirement of treasury stock	(4,418)	(4)	(40)	44	-	-	-
Cancellation of forfeited restricted stock awards	(27,375)	(27)	27	-	-	-	-
Net purchase of treasury stock	-	-		(26,546)	-	-	(26,546)
Shares issued in acquisitions	3,878,304	3,878	117,513	-	-	-	121,391
Options assumed in acquisitions	-	-	2,343	-	-	-	2,343
Common stock issued:							
Dividend Reinvestment and Stock Purchase Plan	663	1	19	-	-	-	20
Share-based awards and options exercises	342,107	341	6,242	-	-	-	6,583
Balance December 31, 2015	20,931,416	$ 20,931	$ 228,814	$ (58,144)	$ (412)	$ 174,522	$ 365,711
Net income	-	-	-	-	-	36,036	36,036
Tax provision-to-return adjustment related to excess tax benefit on stock-based compensation	-	-	197	-	-	-	197
Dividends declared, $0.82 per share	-	-	-	-	-	(13,989)	(13,989)
Other comprehensive income, net of tax benefit of $1,075	-	-	-	-	(1,997)	-	(1,997)
Stock based compensation	-	-	1,713	-	-	-	1,713
Retirement of treasury stock	(4,320)	(4)	(39)	43	-	-	-
Net purchase of treasury stock through publicly announced plans	-	-	-	(7,971)	-	-	(7,971)
Net purchase of treasury stock from stock award and deferred compensation plans	-	-	-	(878)	-	-	(878)
Common stock issued:							
Common stock issued through share-based awards and options exercises	183,872	184	2,121	-	-	-	2,305
Balance December 31, 2016	21,110,968	$ 21,111	$ 232,806	$ (66,950)	$ (2,409)	$ 196,569	$ 381,127

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

54

Table of Contents

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

A. Nature of Business

The Bryn Mawr Trust Company (the "Bank") received its Pennsylvania banking charter in 1889 and is a member of the Federal Reserve System. In 1986, Bryn Mawr Bank Corporation (the "Corporation") was formed and on January 2, 1987, the Bank became a wholly-owned subsidiary of the Corporation. The Bank and Corporation are headquartered in Bryn Mawr, Pennsylvania, located in the western suburbs of Philadelphia. The Corporation and its subsidiaries provide wealth management, commercial and community banking, residential mortgage lending, insurance and business banking services to its customers through 25 full service branches, eight limited-hour retirement community offices, one limited-service branch, five wealth offices and a full-service insurance agency located throughout Montgomery, Delaware, Chester, Dauphin and Philadelphia counties in Pennsylvania and New Castle county in Delaware. The common stock of the Corporation trades on the NASDAQ Stock Market ("NASDAQ") under the symbol BMTC.

On January 30, 2017, the Corporation entered into a definitive Agreement and Plan of Merger to acquire Royal Bancshares of Pennsylvania, Inc. ("RBPI"), parent company of Royal Bank America ("RBA"), in a transaction with an aggregate value of $127.7 million (the "Acquisition"). In connection with the Acquisition, RBPI will merge with and into the Corporation and RBA will merge with and into the Bank. The Acquisition, which is expected to add approximately $602 million in loans and $630 million in deposits (based on unaudited December 31, 2016 financial information), strengthens the Corporation's position as the largest community bank in Philadelphia's western suburbs and, based on deposits, ranks it as the eighth largest community bank headquartered in Pennsylvania. The Acquisition, which will expand the Corporation's distribution network by providing entry into the new markets of New Jersey and Berks County, Pennsylvania, and a new physical presence in Philadelphia County, Pennsylvania is expected to close during the third quarter of 2017.

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

On January 1, 2015, the merger of Continental Bank Holdings, Inc. (“CBH”) with and into the Corporation (the “CBH Merger”), and the merger of Continental Bank with and into the Bank, were completed. Consideration paid totaled $125.1 million, comprised of 3,878,383 shares (which included fractional shares paid in cash) of the Corporation’s common stock, the assumption of options to purchase Corporation common stock valued at $2.3 million and $1.3 million for the cash-out of certain warrants. The CBH Merger initially added $424.7 million of loans, $181.8 million of investments, $481.7 million of deposits and ten new branches. The acquisition of CBH enabled the Corporation to expand its footprint into a significant portion of Montgomery County, Pennsylvania.

On October 1, 2014, the acquisition of Powers Craft Parker and Beard, Inc. (“PCPB”), an insurance brokerage headquartered in Rosemont, Pennsylvania, was completed. The consideration paid by the Corporation was $7.0 million, of which $5.4 million was paid at closing and the first two of three contingent payments, of $542 thousand each, were paid during the fourth quarters of 2015 and 2016. The remaining $542 thousand represents one contingent payment, not to exceed $542 thousand. The payment is subject to the attainment of certain revenue targets during the applicable period. The addition enabled the Corporation to offer a full range of insurance products to both individual and business clients.

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

B. Basis of Presentation

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

Table of Contents

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

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

Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that in 2017, actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Amounts subject to significant estimates are items such as the allowance for loan and lease losses and lending related commitments, goodwill and intangible assets, pension and post-retirement obligations, the fair value of financial instruments and other-than-temporary impairments. Among other effects, such changes could result in future impairments of investment securities, goodwill and intangible assets and establishment of allowances for loan losses and lending-related commitments as well as increased pension and post-retirement expense.

C. Cash and Cash Equivalents

Cash and cash equivalents include cash, interest-bearing and non-interest bearing amounts due from banks, and federal funds sold. Cash balances required to meet regulatory reserve requirements of the Federal Reserve Board amounted to $10.4 million and $11.7 million at December 31, 2016 and December 31, 2015, respectively.

D. Investment Securities

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

The Corporation follows ASC 370-10-65-1 "Recognition and Presentation of Other-Than-Temporary Impairments" that provides guidance related to accounting for recognition of other-than-temporary impairment for debt securities and expands disclosure requirements for other-than-temporarily impaired debt and equity securities. Companies are required to record other-than-temporary impairment charges through earnings if they have the intent to sell, or will more likely than not be required to sell, an impaired debt security before a recovery of its amortized cost basis. In addition, companies are required to record other-than-temporary impairment charges through earnings for the amount of credit losses, regardless of the intent or requirement to sell. Credit loss is measured as the difference between the present value of an impaired debt security's cash flows and its amortized cost basis. Non-credit-related write-downs to fair value must be recorded as decreases to accumulated other comprehensive income as long as the Corporation has no intent or it is more likely than not that the Corporation would not be required to sell an impaired security before a recovery of its amortized cost basis. The Corporation did not have any other-than-temporary impairments for 2016, 2015 or 2014.

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

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

E. Loans Held for Sale

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

F. Portfolio Loans and Leases

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

Table of Contents

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

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

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

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

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

G. Allowance for Loan and Lease Losses

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

The Corporation’s determination of the adequacy of the Allowance is based on guidance provided in ASC 450 – Contingencies and ASC 310 - Receivables, and involves the periodic evaluations of the loan and lease portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires significant estimates by the Corporation. Consideration is given to a variety of factors in establishing these estimates. Quantitative factors in the form of historical net charge-off rates by portfolio segment are considered. In connection with these quantitative factors, management establishes what it deems to be an adequate look-back period (“LBP”) for the charge-off history. As of December 31, 2016, the Corporation utilized a five-year LBP, which it believes adequately captures the trends in charge-offs. In addition, management develops an estimate of a loss emergence period (“LEP”) for each segment of the loan portfolio. The LEP estimates the time between the occurrence of a loss event for a borrower and an actual charge-off of a loan. As of December 31, 2016, the Corporation utilized a two-year LEP for its commercial loan segments and a one-year LEP for its consumer loan segments based on analyses of actual charge-offs tracked back in time to the triggering event for the eventual loss. In addition, various qualitative factors are considered, including the specific terms and conditions of loans, changes in underwriting standards, delinquency statistics, industry concentrations and overall exposure of a single customer. In addition, consideration is given to the adequacy of collateral, the dependence on collateral, and the results of internal loan reviews, including a borrower’s financial strengths, their expected cash flows, and their access to additional funds.

As part of the process of calculating the Allowance for the different segments of the loan and lease portfolio, the Corporation considers certain credit quality indicators. For the commercial mortgage, construction and commercial and industrial loan segments, periodic reviews of the individual loans are performed by both in-house staff as well as external third-party loan review specialists. The result of these reviews is reflected in the risk grade assigned to each loan. For the consumer segments of the loan portfolio, the indicator of credit quality is reflected by the performance/non-performance status of a loan.

The evaluation process also considers the impact of competition, current and expected economic conditions, national and international events, the regulatory and legislative environment and inherent risks in the loan and lease portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from the Corporation’s estimates, an additional Provision may be required that might adversely affect the Corporation’s results of operations in future periods. In addition, various regulatory agencies, as an integral part of their examination processes, periodically review the adequacy of the Allowance. Such agencies may require the Corporation to record additions to the Allowance based on their judgment of information available to them at the time of their examination.

Table of Contents

H. Impaired Loans and Leases

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

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

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

In addition to originating loans, the Corporation occasionally acquires loans through mergers or loan purchase transactions. Some of these acquired loans may exhibit deteriorated credit quality that has occurred since origination and, as such, the Corporation may not expect to collect all contractual payments. Accounting for these purchased credit-impaired ("PCI") loans is done in accordance with ASC 310-30. The loans are recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition on these loans is based on a reasonable expectation about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral-dependent, with the timing of the sale of loan collateral indeterminate, remain on nonaccrual status and have no accretable yield. On a regular basis, at least quarterly, an assessment is made on PCI loans to determine if there has been any improvement or deterioration of the expected cash flows. If there has been improvement, an adjustment is made to increase the recognition of interest on the PCI loan, as the estimate of expected loss on the loan is reduced. Conversely, if there is deterioration in the expected cash flows of a PCI loan, a Provision is recorded in connection with the loan.

I. Troubled Debt Restructurings ("TDR"s)

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

J. Other Real Estate Owned ("OREO")

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

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

Other investments include Community Reinvestment Act ("CRA") investments and equity stocks without a readily determinable fair value. The Corporation's investments in equity stocks include those issued by the Federal Home Loan Bank of Pittsburgh ("FHLB"), the Federal Reserve Bank ("FRB") and Atlantic Central Bankers Bank. The Corporation is required to hold FHLB stock as a condition of its borrowing funds from the FHLB. As of December 31, 2016, the carrying value of the Corporation's FHLB stock was $17.3 million. In addition, the Corporation is required to hold FRB stock based on the Corporation's capital. As of December 31, 2016, the carrying value of the Corporation's FRB stock was $6.9 million. Ownership of FHLB and FRB stock is restricted and there is no market for these securities. For further information on the FHLB stock, see Note 10 – "Short-Term Borrowings and Long-Term FHLB Advances".

L. Premises and Equipment

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

M. Pension and Postretirement Benefit Plan

As of December 31, 2016, the Corporation had two non-qualified defined-benefit supplemental executive retirement plans and a postretirement benefit plan as discussed in Note 16 – "Pension and Postretirement Benefit Plans". Net pension expense related to the defined-benefit consists of service cost, interest cost, return on plan assets, amortization of prior service cost, amortization of transition obligations and amortization of net actuarial gains and losses. Prior to December 31, 2015, the Corporation had a qualified pension plan which was settled on December 31, 2015. As it relates to the costs associated with the post-retirement benefit plan, the costs are recognized as they are incurred.

Table of Contents

N. Bank Owned Life Insurance ("BOLI")

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

O. Derivative Financial Instruments

The Corporation recognizes all derivative financial instruments on its balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative has qualified as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings immediately. To determine fair value, the Corporation uses valuations obtained from a third party which utilizes a pricing model that incorporates assumptions about market conditions and risks that are current as of the reporting date. Management reviews, annually, the inputs utilized by its independent third-party valuation organization.

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

P. Accounting for Stock-Based Compensation

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

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

Q. Earnings per Common Share

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

R. Income Taxes

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

Table of Contents

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

S. Revenue Recognition

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

Additional information relating to wealth management fee revenue recognition follows:

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

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

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

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

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

T. Mortgage Servicing

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

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

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

U. Statement of Cash Flows

The Corporation's statement of cash flows details operating, investing and financing activities during the reported periods.

V. Goodwill and Intangible Assets

The Corporation accounts for goodwill and other intangible assets in accordance with ASC 350, "Intangibles – Goodwill and Other." The goodwill and intangible assets as of December 31, 2016, other than MSRs in Note 1-T above, are related to the acquisitions of Lau Associates, The Private Wealth Management Group of the Hershey Trust Company ("PWMG"), Davidson Trust Company ("DTC"), PCPB and RJM which are components of the Wealth Management segment, and First Keystone Financial, Inc. ("FKF"), First Bank of Delaware ("FBD") and CBH, which are components of the Banking segment. The amount of goodwill initially recorded is based on the fair value of the acquired entity at the time of acquisition. Goodwill impairment tests are performed annually, as of October 31, or when events occur or circumstances change that would more likely than not reduce the fair value of the acquisition or investment. Prior to October 31, 2016, the Corporation had performed the goodwill impairment testing as of December 31. During 2016, the Corporation made a voluntary change in the method of applying an accounting principle related to the timing of the annual goodwill impairment assessment from December 31st to October 31st. Management made this decision based on the time intensive nature of the goodwill impairment assessment. Management does not consider this change in impairment testing date to be a material change in application of an accounting principle. Goodwill impairment is tested on a reporting unit level. The Corporation currently has three reporting units: Banking, Wealth Management and Insurance. As of December 31, 2016, the Insurance reporting unit did not meet the quantitative thresholds for separate disclosure as an operating segment and is therefore reported as a component of the Wealth Management segment, based on its internal reporting structure. While the Insurance reporting unit did not meet the threshold for reporting as a separate operating segment, for goodwill and intangible testing, the Insurance segment was tested for impairment. An operating segment is a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available

Table of Contents

The Corporation’s impairment testing methodology is consistent with the methodology prescribed in ASC 350. Other intangible assets include core deposit intangibles, which were acquired in the FKF merger, the FBD transaction, and the CBH Merger, customer relationships, trade name and non-competition agreements acquired in connection with the acquisitions of DTC, PWMG, Lau Associates, PCPB and RJM. The customer relationships, non-competition agreement and core deposit intangibles are amortized over the estimated useful lives of the assets. The trade name intangibles have indefinite lives and are evaluated for impairment annually.

W. Reclassifications

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

X. Recent Accounting Pronouncements

The following recent accounting pronouncements are divided into pronouncements which have been adopted by the Corporation and those which are not yet effective and have been evaluated or are currently being evaluated by the Corporation as of December 31, 2016.

Adopted Pronouncements:

FASB ASU 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”

Issued on August 15, 2014, ASU 2014-15 describes how an entity should assess its ability to meet obligations and sets disclosure requirements for how this information should be disclosed in the financial statements. The standard provides accounting guidance that will be used with existing auditing standards. The new standard applies to all entities for the first annual period ending after December 15, 2016, and interim periods thereafter. As of December 31, 2016, the adoption of FASB ASU 2014-15 has not had an impact on our consolidated financial statements.

FASB ASU 2016-09 (Topic 718), "Improvements to Employee Share-Based Payment Accounting"

In March 2016, the FASB issued ASU No. 2016-09, which changes several aspects of the accounting for share-based payment award transactions, including: (1) Accounting and Cash Flow Classification for Excess Tax Benefits and Deficiencies, (2) Forfeitures, and (3) Tax Withholding Requirements and Cash Flow Classification. The standard is effective for public business entities in annual and interim periods in fiscal years beginning after December 15, 2016. Early adoption is permitted if the entire standard is adopted. If an entity early adopts the standard in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Corporation early-adopted ASU 2016-09 during the three months ended September 30, 2016. As a result of the adoption, the Corporation recognized a $565 thousand tax benefit in the Consolidated Statements of Income for the twelve months ended December 31, 2016. The impact of the income tax benefit or expense related to ASU 2016-09 is treated as a discrete item in the calculation of the year-to-date income tax expense. Also, in accordance with the provisions of ASU 2016-09, the Corporation presents excess tax benefits as an operating activity in the Consolidated Statement of Cash Flows using a retrospective transition method. Adoption of all other changes did not have an impact on our consolidated financial statements.

Pronouncements Not Yet Effective:

FASB ASU No. 2014-09 (Topic 606), "Revenue from Contracts with Customers"

Issued in May 2014, ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers using a five-step model that requires entities to exercise judgment when considering the terms of the contracts. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. This amendment defers the effective date of ASU 2014-09 by one year. In March 2016, the FASB issued ASU 2016- 08, "Principal versus Agent Considerations (Reporting Gross versus Net)," which amends the principal versus agent guidance and clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. In addition, the FASB issued ASU Nos. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers and 2016-12, Narrow-Scope Improvements and Practical Expedients, both of which provide additional clarification of certain provisions in Topic 606. These Accounting Standards Codification ("ASC") updates are effective for annual reporting periods beginning after December 15, 2017, but early adoption is permitted. Early adoption is permitted only as of annual reporting periods after December 15, 2016. The standard permits the use of either the retrospective or retrospectively with the cumulative effect transition method. The Corporation is currently in the process of evaluating all revenue streams, accounting policies, practices and reporting to identify and understand any impact on the Corporation's Consolidated Financial Statements. Our preliminary evaluation suggests that adoption of this guidance is not expected to have a material effect on our Consolidated Financial Statements.

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

Issued in January 2017, ASU 2017-04 simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. ASU 2017-04 is effective for annual periods beginning after December 15, 2019 including interim periods within those periods. The Corporation is evaluating the effect that ASU 2017-04 will have on its consolidated financial statements and related disclosures.

Table of Contents

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

Issued in January 2017, ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 is effective for annual periods beginning after December 15, 2017 including interim periods within those periods. The Corporation is evaluating the effect that ASU 2017-01 will have on its consolidated financial statements and related disclosures.

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

Issued in August 2016, ASU 2016-15 provides guidance on eight specific cash flow issues and their disclosure in the consolidated statements of cash flows. The issues addressed include debt prepayment, settlement of zero-coupon debt, contingent consideration in business combinations, proceeds from settlement of insurance claims, proceeds from settlement of BOLI, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the Predominance principle. 2016-15 is effective for the annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted. The Corporation is currently evaluating the impact of this guidance and does not anticipate a material impact on its consolidated financial statements.

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 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, 2018, with early adoption permitted. The Corporation is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

Table of Contents

FASB ASU 2016-02 (Topic 842), "Leases"

Issued in February 2016, ASU 2016-02 revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new lease guidance also simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. ASU 2016-02 is effective for the first interim period within annual periods beginning after December 15, 2018, with early adoption permitted. The standard is required to be adopted using the modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Corporation is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

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

Issued in January 2016, ASU 2016-01 provides that equity investments will be measured at fair value with changes in fair value recognized in net income. When fair value is not readily determinable an entity may elect to measure the equity investment at cost, minus impairment, plus or minus any change in the investment's observable price. For financial liabilities that are measured at fair value, the amendment requires an entity to present separately, in other comprehensive income, any change in fair value resulting from a change in instrument-specific credit risk. ASU 2016-01 will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Entities may apply this guidance on a prospective or retrospective basis. The Corporation is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

Note 2 - Business Combinations

Robert J. McAllister Agency, Inc.

The acquisition of RJM, an insurance brokerage headquartered in Rosemont, Pennsylvania, was completed on April 1, 2015. The consideration paid totaled $1.0 million, of which $500 thousand was paid at closing, $85 thousand of the first annual payment not to exceed $100 thousand was paid during the second quarter of 2016 and four remaining contingent cash payments, not to exceed $100 thousand each, will be payable on each of March 31, 2017, March 31, 2018, March 31, 2019, and March 31, 2020, subject to the attainment of certain revenue targets during the related periods. The $15 thousand difference between the first maximum payment of $100 thousand and the $85 thousand that was actually paid was recognized as other non-interest income. The acquisition will enhance the Corporation's ability to offer comprehensive insurance solutions to both individual and business clients.

In connection with the RJM 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 subsequent adjustments, during the measurement period, to the fair value of the assets acquired, liabilities assumed and the resulting goodwill recorded:

(dollars in thousands)	Original Estimates	Adjustments to Estimates	Final Valuation
Consideration paid:			
Cash paid at closing	$ 500	$ —	$ 500
Contingent payment liability	500	—	500
Value of consideration	1,000	—	1,000
Assets acquired:			
Cash operating accounts	20	—	20
Intangible assets – trade name	129	(129)	—
Intangible assets – customer relationships	424	—	424
Intangible assets – non-competition agreements	257	—	257
Other assets	4	—	4
Total assets	834	(129)	705
Liabilities assumed:			
Deferred tax liability	336	(45)	291
Other liabilities	46	—	46
Total liabilities	382	(45)	337
Net assets acquired	452	(84)	368
Goodwill resulting from acquisition of RJM	$ 548	$ 84	$ 632

Table of Contents

An adjustment was made which eliminated the value initially placed on the trade name (and its associated deferred tax liability), as the entity was immediately merged into PCPB.

As of December 31, 2015, the estimates of fair values of the assets acquired and liabilities assumed in the acquisition of RJM were finalized.

Continental Bank Holdings, Inc.

On January 1, 2015, the previously announced merger of CBH with and into the Corporation, and the merger of Continental Bank with and into the Bank, as contemplated by the Agreement and Plan of Merger, by and between CBH and the Corporation, dated as of May 5, 2014 (as amended by the Amendment to Agreement and Plan of Merger, dated as of October 23, 2014, the "Agreement"), were completed. In accordance with the Agreement, the aggregate share consideration paid to CBH shareholders consisted of 3,878,383 shares (which included fractional shares paid in cash) of the Corporation's common stock. Shareholders of CBH received 0.45 shares of Corporation common stock for each share of CBH common stock they owned as of the effective date of the CBH Merger. Holders of options to purchase shares of CBH common stock received options to purchase shares of Corporation common stock, converted at the same ratio of 0.45. In addition, $1.3 million was paid to certain warrant holders to cash-out certain warrants. In accordance with the acquisition method of accounting, assets acquired and liabilities assumed were preliminarily adjusted to their fair values as of the date of the CBH Merger. The excess of consideration paid above the fair value of net assets acquired was recorded as goodwill. This goodwill is not amortizable nor is it deductible for income tax purposes.

In connection with the CBH Merger, 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 subsequent adjustments, during the measurement period, to the fair value of the assets acquired, liabilities assumed and the resulting goodwill recorded:

(dollars in thousands)	Original Estimates	Adjustments to Estimates	Final Valuation
Consideration paid:			
Common shares issued (3,878,304)	$121,391	$ —	$121,391
Cash in lieu of fractional shares	2	—	2
Cash-out of certain warrants	1,323	—	1,323

Fair value of options assumed	2,343	—	2,343
Value of consideration	125,059	—	125,059
Assets acquired:			
Cash and due from banks	17,934	—	17,934
Investment securities available for sale	181,838	—	181,838
Loans*	426,601	(1,864)	424,737
Premises and equipment	9,037	—	9,037
Deferred income taxes	6,288	1,396	7,684
Bank-owned life insurance	12,054	—	12,054
Core deposit intangible	4,191	—	4,191
Favorable lease asset	792	(68)	724
Other assets	18,085	(111)	17,974
Total assets	676,820	(647)	676,173
Liabilities assumed:			
Deposits	481,674	—	481,674
FHLB and other long-term borrowings	19,726	—	19,726
Short-term borrowings	108,609	—	108,609
Unfavorable lease liability	2,884	—	2,884
Other liabilities	4,706	1,867	6,573
Total liabilities	617,599	1,867	619,466
Net assets acquired	59,221	(2,514)	56,707
Goodwill resulting from the CBH Merger	$65,838	$ 2,514	$68,352

**includes $507 thousand of loans held for sale*

Table of Contents

For the twelve months ended December 31, 2015, adjustments to the fair value of the assets acquired and liabilities assumed were related to circumstances that existed prior to the CBH Merger date, but that were not known to the Corporation. The adjustments included reductions in the fair value of certain loans, unrecorded liabilities of CBH, and an immaterial adjustment to the calculation of a favorable lease asset, which reduced its value, along with the associated deferred tax items.

As of December 31, 2015, the estimates of fair values of the assets acquired and liabilities assumed in the CBH Merger were finalized.

Powers Craft Parker and Beard, Inc.

The acquisition of PCPB, an insurance brokerage headquartered in Rosemont, Pennsylvania, was completed on October 1, 2014. The consideration paid by the Corporation was $7.0 million, of which $5.4 million was paid at closing and the first of three contingent payments, of $542 thousand, was paid during the fourth quarter of 2015. The remaining $1.1 million consists of two contingent payments, with each payment not to exceed $542 thousand. Each payment is subject to the attainment of certain revenue targets during the applicable periods. The measurement periods for the two remaining contingent payments are the twelve month periods ending September 30, 2016 and 2017. The acquisition of PCPB has enabled the Corporation to offer a comprehensive line of insurance solutions to both individual and business clients.

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

(dollars in thousands)	
Consideration paid:	
Cash paid at closing	$5,399
Contingent payment disbursed	542
Contingent payment liability	1,083
Value of consideration	7,024
Assets acquired:	
Cash operating accounts	1,274
Other investments	302
Premises and equipment	100
Intangible assets – customer relationships	3,280
Intangible assets – non-competition agreements	1,580
Intangible assets – trade name	955

Other assets	850
Total assets	8,341
Liabilities assumed:	
Deferred tax liability	2,437
Other liabilities	1,818
Total liabilities	4,255
Net assets acquired	4,086
Goodwill resulting from acquisition of PCPB	$2,938

As of December 31, 2014, the Corporation had finalized its fair value estimates related to the acquisition of PCPB.

Table of Contents

Pro Forma Income Statements (unaudited)

The following pro forma income statements for the twelve months ended December 31, 2014, 2015 and 2016 present the pro forma results of operations of the combined institution (CBH and the Corporation) as if the merger occurred on January 1, 2014, January 1, 2015 and January 1, 2016, respectively. The pro forma income statement adjustments are limited to the effects of fair value mark amortization and accretion and intangible asset amortization. No cost savings or additional merger expenses have been included in the pro forma results of operations for the twelve month period ended December 31, 2014. Due to the immaterial contribution to net income of the PCPB and RJM acquisitions, which occurred during the three year period shown in the table, the pro forma effects of the PCPC acquisition and the RJM acquisition are excluded.

	Twelve Months Ended December 31,		
(dollars in thousands)	2016	2015	2014
Net interest income	$106,236	$100,127	$100,609
Provision for loan and lease losses	4,326	4,396	2,041
Net interest income after provision for loan and lease losses	101,910	95,731	98,568
Non-interest income	54,039	55,960	51,836
Non-interest expense	101,745	125,765	100,011
Income before income taxes	54,204	25,926	50,393
Income tax expense	18,168	9,172	17,673
Net income	$36,036	$16,754	$32,720
Per share data*:			
Weighted-average basic shares outstanding	16,859,623	17,488,325	17,444,543
Dilutive shares	168,499	267,996	373,384
Adjusted weighted-average diluted shares	17,028,122	17,756,321	17,817,927
Basic earnings per common share	$2.14	$0.96	$1.88
Diluted earnings per common share	$2.12	$0.94	$1.84

** Assumes that the shares of CBH common stock outstanding as of December 31, 2014 were outstanding for the full twelve month periods ended December 31, 2013 and 2014, and therefore equal the weighted average shares of common stock outstanding for the twelve months periods ended December 31, 2013 and 2014. The merger conversion of 8,618,629 shares of CBH common stock equals 3,878,304 shares of Corporation common stock (8,618,629 times 0.45, minus 79 fractional shares paid in cash).*

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:

	Twelve Months Ended December 31,		
(dollars in thousands)	**2016**	**2015**	**2014**
Advertising	$—	$162	$10
Employee benefits	—	258	23
Furniture, fixtures and equipment	—	159	9
Information technology	—	1,168	44
Professional fees	—	2,471	1,340
Salaries and wages	—	1,868	346
Other	—	584	601
Total due diligence and merger-related expenses	$—	$6,670	$2,373

Table of Contents

Note 3 - Goodwill & Other Intangible Assets

The Corporation completed an annual impairment test for goodwill and other intangibles as of December 31, 2015 and October 31, 2016. During 2016, the Corporation made a voluntary change in the method of applying an accounting principle related to the timing of the annual goodwill impairment assessment from December 31st to October 31st. Management made this decision based on the time intensive nature of the goodwill impairment assessment. Management does not consider this change in impairment testing date to be a material change in application of an accounting principle. Future impairment testing will be conducted each October 31, unless a triggering event occurs in the interim that would suggest possible impairment, in which case it would be tested as of the date of the triggering event. There was no goodwill impairment and no material impairment to identifiable intangible assets recorded during 2015 or 2016. There can be no assurance that future impairment assessments or tests will not result in a charge to earnings.

The Corporation's goodwill and intangible assets related to the acquisitions of Lau Associates in July 2008, FKF in July 2010, PWMG in May 2011, DTC in May 2012, FBD in November 2012, PCPB in October 2014, CBH in January 2015 and RJM in April 2015 for the years ended December 31, 2016 and 2015 are as follows:

(dollars in thousands)	**Beginning Balance 12/31/15**	**Additions/ Adjustments**	**Amortization**	**Ending Balance 12/31/16**	**Initial Amortization Period**
Goodwill – Wealth reporting unit	$ 20,412	$ —	$ —	$ 20,412	Indefinite
Goodwill – Banking reporting unit	80,783	—	—	80,783	Indefinite
Goodwill – Insurance reporting unit	3,570	—	—	3,570	Indefinite
Total	$ 104,765	$ —	$ —	$ 104,765	
Core deposit intangible	$ 4,272	$ —	(825)	$ 3,447	10 years
Customer relationships	14,384	—	(1,328)	13,056	10 to 20 years
Non-compete agreements	2,932	—	(1,298)	1,634	5 to 10 years
Trade name	2,165	—	—	2,165	Indefinite
Favorable lease asset	150	—	(47)	103	17 to 75 months
Total	$ 23,903	$ —	(3,498)	$ 20,405	
Grand total	$ 128,668	$ —	(3,498)	$ 125,170	

(dollars in thousands)	**Beginning**	**Additions/**	**Amortization/**	**Ending**	**Amortization Period**

	Balance 12/31/14	Adjustments	Impairment	Balance 12/31/15	
Goodwill – Wealth reporting unit	$ 20,412	$ —	$ —	$ 20,412	Indefinite
Goodwill – Banking reporting unit	12,431	68,352	—	80,783	Indefinite
Goodwill – Insurance reporting unit	2,938	632	—	3,570	Indefinite
Total	$ 35,781	$ 68,984	$ —	$ 104,765	
Core deposit intangible	$ 1,066	$ 4,191	$ (985)	$ 4,272	10 years
Customer relationships	15,562	424	(1,602)	14,384	10 to 20 years
Non-compete agreements	3,728	257	(1,053)	2,932	5 to 10 years
Trade name	2,165	—	—	2,165	Indefinite
Favorable lease asset	—	724	(574)	150	17 to 75 months
Total	$ 22,521	$ 5,596	$ (4,214)	$ 23,903	
Grand total	$ 58,302	$ 74,580	$ (4,214)	$ 128,668	

Table of Contents

Note 4 - Investment Securities

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

As of December 31, 2016

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

As of December 31, 2015

(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury securities	$ 101	$ —	$ (1)	$ 100
Obligations of the U.S. government and agencies	101,342	470	(317)	101,495
Obligations of state and political subdivisions	41,892	123	(49)	41,966
Mortgage-backed securities	157,422	1,482	(215)	158,689
Collateralized mortgage obligations	29,756	166	(123)	29,799
Other investments	17,263	38	(384)	16,917
Total	$ 347,776	$ 2,279	$ (1,089)	$ 348,966

The following table shows the amount of *available for sale* investment securities that were in an unrealized loss position at December 31, 2016:

	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	$62,211	$ (1,080)	$—	$ —	$62,211	$ (1,080)
Obligations of state and political subdivisions	24,482	(121)	—	—	24,482	(121)
Mortgage-backed securities	101,433	(1,306)	—	—	101,433	(1,306)
Collateralized mortgage obligations	35,959	(902)	—	—	35,959	(902)
Other investments	2,203	(93)	11,895	(61)	14,098	(154)
Total	$226,288	$ (3,502)	$11,895	$ (61)	$238,183	$ (3,563)

Table of Contents

The following table shows the amount of *available for sale* investment securities that were in an unrealized loss position at December 31, 2015:

	Less than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$100	$ (1)	$—	$ —	$100	$ (1)
Obligations of the U.S. government and agencies	49,759	(317)	—	—	49,759	(317)
Obligations of state and political subdivisions	18,725	(46)	2,016	(3)	20,741	(49)
Mortgage-backed securities	55,763	(215)	—	—	55,763	(215)
Collateralized mortgage obligations	6,407	(85)	2,436	(38)	8,843	(123)
Other investments	3,945	(238)	11,810	(146)	15,755	(384)
Total	$134,699	$ (902)	$16,262	$ (187)	$150,961	$ (1,089)

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. The Corporation 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.

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

The amortized cost and fair value of *available for sale* investment and mortgage-related securities available for sale as of December 31, 2016 and 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(dollars in thousands)	December 31, 2016 Amortized Cost	Fair Value
Investment securities*:		
Due in one year or less	$213,876	$213,885
Due after one year through five years...	40,335	40,270
Due after five years through ten years	45,840	44,914
Due after ten years	18,079	18,055
Subtotal	318,130	317,124
Mortgage-related securities	235,485	234,644
Total	$553,615	$551,768

**Included in the investment portfolio, but not in the table above, are mutual funds with an amortized cost and fair value, as of December 31, 2016, of $15.3 million and $15.2 million, respectively, which have no stated maturity.*

Table of Contents

(dollars in thousands)	**December 31, 2015** **Amortized Cost**	**Fair Value**
Investment securities*:		
Due in one year or less	$9,570	$9,574
Due after one year through five years	61,368	61,467
Due after five years through ten years	53,193	53,070
Due after ten years	20,904	21,141
Subtotal	145,035	145,252
Mortgage-related securities	187,178	188,488
Total	$332,213	$333,740

** Included in the investment portfolio, but not in the table above, are mutual funds with an amortized cost and fair value, as of December 31, 2015, of $15.6 million and $15.2 million, respectively, which have no stated maturity.*

Proceeds from the sale of *available for sale* investment securities totaled $276 thousand, $64.9 million and $24.4 million for the twelve months ended December 31, 2016, 2015 and 2014, respectively. Net loss on sale of available for sale investment securities for the twelve months ended December 31, 2016 totaled $77 thousand. Net gain on sale of available for sale investment securities for the twelve months ended December 31, 2015 and 2014 totaled $931 thousand and $471 thousand, respectively.

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

As of December 31, 2016

(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Mortgage-backed securities	$ 2,879	$ —	$ (61)	$2,818
Total	$ 2,879	$ —	$ (61)	$2,818

The following table shows the amount of *held to maturity* securities that were in an unrealized loss position at December 31, 2015:

	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	$2,818	$ (61)	$ —	$ —	$2,818	$ (61)
Total	$2,818	$ (61)	$ —	$ —	$2,818	$ (61)

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

	December 31, 2016	
(dollars in thousands)	**Amortized Cost**	**Fair Value**
Mortgage-related securities[1]	2,879	2,818
Total	$2,879	$2,818

[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 December 31, 2015, there were no investments *held to maturity*.

Table of Contents

As of December 31, 2016 and December 31, 2015, the Corporation's investment securities held in *trading* accounts totaled $3.9 million and $4.0 million, respectively, and consist solely of deferred compensation trust accounts which are invested in listed mutual funds whose diversification is at the discretion of the deferred compensation plan participants. Investment securities held in trading accounts are reported at fair value, with adjustments in fair value reported through income.

Note 5 - Loans and Leases

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

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

	December 31, 2016	December 31, 2015
Loans held for sale	$9,621	$8,987
Real estate loans:		
Commercial mortgage	$1,110,898	$964,259
Home equity lines and loans	207,999	209,473
Residential mortgage	413,540	406,404
Construction	141,964	90,421
Total real estate loans	1,874,401	1,670,557
Commercial and industrial	579,791	524,515
Consumer	25,341	22,129
Leases	55,892	51,787
Total portfolio loans and leases	2,535,425	2,268,988
Total loans and leases	$2,545,046	$2,277,975
Loans with fixed rates	$1,130,172	$1,103,622
Loans with adjustable or floating rates	1,414,874	1,174,353

Total loans and leases	$2,545,046	$2,277,975
Net deferred loan origination fees included in the above loan table	$(735)	$(70)

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

	December 31, 2016	December 31, 2015
Loans held for sale	$9,621	$8,987
Real estate loans:		
Commercial mortgage	$946,879	$772,571
Home equity lines and loans	178,450	171,189
Residential mortgage	342,268	316,487
Construction	141,964	87,155
Total real estate loans	1,609,561	1,347,402
Commercial and industrial	550,334	462,746
Consumer	25,200	21,934
Leases	55,892	51,787
Total portfolio loans and leases	2,240,987	1,883,869
Total loans and leases	$2,250,608	$1,892,856
Loans with fixed rates	$992,917	$932,575
Loans with adjustable or floating rates	1,257,691	960,281
Total originated loans and leases	$2,250,608	$1,892,856
Net deferred loan origination fees included in the above loan table	(735)	(70)

Table of Contents

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

	December 31, 2016	**December 31, 2015**
Real estate loans:		
Commercial mortgage	$ 164,019	$ 191,688
Home equity lines and loans	29,549	38,284
Residential mortgage	71,272	89,917
Construction	—	3,266
Total real estate loans	264,840	323,155
Commercial and industrial	29,457	61,769
Consumer	141	195
Total portfolio loans and leases	294,438	385,119
Total loans and leases	$ 294,438	$ 385,119
Loans with fixed rates	$ 137,255	$ 171,047
Loans with adjustable or floating rates	157,183	214,072
Total acquired loans and leases	$ 294,438	$ 385,119

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

(dollars in thousands)	**December 31, 2016**	**December 31, 2015**
Minimum lease payments receivable	$ 62,379	$ 58,422
Unearned lease income	(8,608)	(8,919)
Initial direct costs and deferred fees	2,121	2,284
Total	$ 55,892	$ 51,787

C. Non-Performing Loans and Leases[(1)]

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

(dollars in thousands)	December 31, 2016	December 31, 2015
Non-accrual loans and leases:		
Commercial mortgage	$ 320	$ 829
Home equity lines and loans	2,289	2,027
Residential mortgage	2,658	3,212
Construction	—	34
Commercial and industrial	2,957	4,133
Consumer	2	—
Leases	137	9
Total	$ 8,363	$ 10,244

(1) *Purchased credit-impaired loans, which have been recorded at their fair values at acquisition, and which are performing, are excluded from this table, with the exception of $344 thousand and $661 thousand of purchased credit-impaired loans as of December 31, 2016 and December 31, 2015, respectively, which became non-performing subsequent to acquisition.*

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

(dollars in thousands)	December 31, 2016	December 31, 2015
Non-accrual originated loans and leases:		
Commercial mortgage	$ 265	$ 279
Home equity lines and loans	2,169	1,788
Residential mortgage	1,654	1,964
Construction	—	34
Commercial and industrial	941	3,044
Consumer	2	—
Leases	137	9
Total	$ 5,168	$ 7,118

Table of Contents

The following table details non-performing *acquired* portfolio loans[1] as of the dates indicated:

(dollars in thousands)	**December 31, 2016**	**December 31, 2015**
Non-accrual acquired loans and leases:		
Commercial mortgage	$ 55	$ 550
Home equity lines and loans	120	239
Residential mortgage	1,004	1,248
Commercial and industrial	2,016	1,089
Total	$ 3,195	$ 3,126

(1) *Purchased credit-impaired loans, which have been recorded at their fair values at acquisition, and which are performing, are excluded from this table, with the exception of $344 thousand and $661 thousand of purchased credit-impaired loans as of December 31, 2016 and December 31, 2015, respectively, which became non-performing subsequent to acquisition.*

D. Purchased Credit-Impaired Loans

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

(dollars in thousands)	**December 31, 2016**	**December 31, 2015**
Outstanding principal balance	$ 18,091	$ 24,879
Carrying amount[1]	$ 12,432	$ 16,846

(1)

Includes $368 thousand and $699 thousand of purchased credit-impaired loans as of December 31, 2016 and December 31, 2015, respectively, for which the Corporation could not estimate the timing or amount of expected cash flows to be collected at acquisition, and for which no accretable yield is recognized. Additionally, the table above includes $344 thousand and $661 thousand of purchased credit-impaired loans as of December 31, 2016 and December 31, 2015, respectively, which became non-performing subsequent to acquisition, which are disclosed in Note 5C, above, and which also have no accretable yield.

The following table presents changes in the accretable discount on purchased credit-impaired loans, for which the Corporation applies ASC 310-30, for the twelve months ended December 31, 2016:

(dollars in thousands)	**Accretable Discount**
Balance, December 31, 2015	$ 6,115
Accretion	(1,858)
Reclassifications from nonaccretable difference	182
Additions/adjustments	68
Disposals	(1,274)
Balance, December 31, 2016	$ 3,233

Table of Contents

E. Age Analysis of Past Due Loans and Leases

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

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

(dollars in thousands) As of December 31, 2015	Accruing Loans and Leases 30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$1,126	$211	$ —	$1,337	$962,093	$963,430	$ 829	$964,259
Home equity lines and loans	1,596	15	—	1,611	205,835	207,446	2,027	209,473
Residential mortgage	1,923	74	—	1,997	401,195	403,192	3,212	406,404
Construction	—	—	—	—	90,387	90,387	34	90,421
Commercial and industrial	99	39	—	138	520,244	520,382	4,133	524,515
Consumer	20	—	—	20	22,109	22,129	—	22,129
Leases	375	123	—	498	51,280	51,778	9	51,787
	$5,139	$462	$ —	$5,601	$2,253,143	$2,258,744	$ 10,244	$2,268,988

**included as "current" are $15.3 million and $10.5 million of loans and leases as of December 31, 2016 and 2015, respectively, which are classified as Administratively Delinquent. An Administratively Delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the* *reporting date. The Corporation does not consider these loans to be delinquent.*

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

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

Table of Contents

(dollars in thousands) As of December 31, 2015	Accruing Loans and Leases 30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$1,016	$155	$ —	$1,171	$771,121	$772,292	$ 279	$772,571
Home equity lines and loans	1,445	—	—	1,445	167,956	169,401	1,788	171,189
Residential mortgage	1,475	9	—	1,484	313,039	314,523	1,964	316,487
Construction	—	—	—	—	87,121	87,121	34	87,155
Commercial and industrial	—	—	—	—	459,702	459,702	3,044	462,746
Consumer	20	—	—	20	21,914	21,934	—	21,934
Leases	375	123	—	498	51,280	51,778	9	51,787
	$4,331	$287	$ —	$4,618	$1,872,133	$1,876,751	$ 7,118	$1,883,869

**included as "current" are $13.5 million and $10.1 million of loans and leases as of December 31, 2016 and 2015, respectively, which are classified as Administratively Delinquent. An Administratively Delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. The Corporation does not consider these loans to be delinquent.*

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

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

(dollars in thousands) As of December 31, 2015	Accruing Loans and Leases 30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$110	$56	$ —	$166	$190,972	$191,138	$ 550	$191,688
Home equity lines and loans	151	15	—	166	37,879	38,045	239	38,284
Residential mortgage	448	65	—	513	88,156	88,669	1,248	89,917
Construction	—	—	—	—	3,266	3,266	—	3,266
Commercial and industrial	99	39	—	138	60,542	60,680	1,089	61,769
Consumer	—	—	—	—	195	195	—	195
	$808	$175	$ —	$983	$381,010	$381,993	$ 3,126	$385,119

**included as "current" are $1.8 million and $418 thousand of loans and leases as of December 31, 2016 and 2015, respectively, which are classified as Administratively Delinquent. An Administratively Delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. The Corporation does not consider these loans to be delinquent.*

Table of Contents

F. Allowance for Loan and Lease Losses (the "Allowance")

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

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

The following table details the roll-forward of the Allowance for the twelve months ended December 31, 2015:

(dollars in thousands)	**Commercial Mortgage**	**Home Equity Lines and Loans**	**Residential Mortgage**	**Construction**	**Commercial and Industrial**	**Consumer**	**Leases**	**Unallocated**	**Total**
Balance, December 31, 2014	$ 3,948	$ 1,917	$ 1,736	$ 1,367	$ 4,533	$ 238	$ 468	$ 379	$ 14,586
Charge-offs	(50)	(774)	(791)	—	(1,220)	(177)	(442)	—	(3,454)
Recoveries	27	98	35	4	35	29	101	—	329
Provision for loan and lease losses	1,274	66	760	(47)	2,261	52	391	(361)	4,396
Balance December 31, 2015	$ 5,199	$ 1,307	$ 1,740	$ 1,324	$ 5,609	$ 142	$ 518	$ 18	$ 15,857

The following table details the allocation of the Allowance for *all* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2016 and December 31, 2015:

(dollars in thousands)	**Commercial Mortgage**	**Home Equity Lines and Loans**	**Residential Mortgage**	**Construction**	**Commercial and Industrial**	**Consumer**	**Leases**	**Unallocated**	**Total**
As of December 31, 2016									
Allowance on loans and leases:									
Individually evaluated for impairment	$ —	$—	$ 73	$ —	$ 5	$ 8	$—	$ —	$86
Collectively evaluated for impairment	6,227	1,255	1,844	2,233	5,137	145	559	—	17,400
Purchased credit-impaired(1)	—	—	—	—	—	—	—	—	—
Total	$ 6,227	$ 1,255	$ 1,917	$ 2,233	$ 5,142	$ 153	$ 559	$ —	$ 17,486
As of December 31, 2015									
Allowance on loans and leases:									
Individually evaluated for impairment	$ —	$ 115	$ 54	$ —	$ 519	$ 5	$—	$ —	$693
Collectively evaluated for impairment	5,199	1,192	1,686	1,324	5,090	137	518	18	15,164
Purchased credit-impaired(1)	—	—	—	—	—	—	—	—	—
Total	$ 5,199	$ 1,307	$ 1,740	$ 1,324	$ 5,609	$ 142	$ 518	$ 18	$ 15,857

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

Table of Contents

The following table details the carrying value for *all* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2016 and December 31, 2015:

(dollars in thousands)	**Commercial Mortgage**	**Home Equity Lines and Loans**	**Residential Mortgage**	**Construction**	**Commercial and Industrial**	**Consumer**	**Leases**	**Total**
As of December 31, 2016								
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 1,576	$ 2,354	$ 7,266	$ —	$ 2,946	$ 31	$ —	$ 14,173
Collectively evaluated for impairment	1,098,788	205,540	406,271	141,964	575,055	25,310	55,892	2,508,820
Purchased credit-impaired[(1)]	10,534	105	3	—	1,790	—	—	12,432
Total	$ 1,110,898	$ 207,999	$ 413,540	$ 141,964	$ 579,791	$ 25,341	$ 55,892	$ 2,535,425
As of December 31, 2015								
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 349	$ 1,980	$ 7,754	$ 33	$ 4,240	$ 30	$ —	$ 14,386
Collectively evaluated for impairment	952,448	207,378	398,635	89,625	515,784	22,099	51,787	2,237,756
Purchased credit-impaired[(1)]	11,462	115	15	763	4,491	—	—	16,846
Total	$ 964,259	$ 209,473	$ 406,404	$ 90,421	$ 524,515	$ 22,129	$ 51,787	$ 2,268,988

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

The following table details the allocation of the Allowance for *originated* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2016 and December 31, 2015:

				Construction		**Consumer**	**Leases**	**Unallocated**	**Total**

(dollars in thousands) **As of December 31, 2016**	**Commercial Mortgage**	**Home Equity Lines and Loans**	**Residential Mortgage**		**Commercial and Industrial**				
Allowance on loans and leases:									
Individually evaluated for impairment	$ —	$—	$ 45	$ —	$ 5	$ 8	$—	$ —	$58
Collectively evaluated for impairment	6,227	1,255	1,844	2,233	5,137	145	559	—	17,400
Total	$ 6,227	$1,255	$ 1,889	$ 2,233	$ 5,142	$ 153	$559	$ —	$17,458
As of December 31, 2015									
Allowance on loans and leases:									
Individually evaluated for impairment	$ —	$115	$ 54	$ —	$ 519	$ 5	$—	$ —	$693
Collectively evaluated for impairment	5,199	1,192	1,686	1,324	5,090	137	518	18	15,164
Total	$ 5,199	$1,307	$ 1,740	$ 1,324	$ 5,609	$ 142	$518	$ 18	$15,857

The following table details the carrying value for *originated* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of December 31, 2016 and December 31, 2015:

(dollars in thousands) **As of December 31, 2016**	**Commercial Mortgage**	**Home Equity Lines and Loans**	**Residential Mortgage**	**Construction**	**Commercial and Industrial**	**Consumer**	**Leases**	**Total**
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 1,521	$2,319	$ 4,111	$ —	$ 1,190	$ 31	$—	$9,172
Collectively evaluated for impairment	945,358	176,131	338,157	141,964	549,144	25,169	55,892	2,231,815
Total	$ 946,879	$178,450	$ 342,268	$ 141,964	$ 550,334	$ 25,200	$55,892	$2,240,987
As of December 31, 2015								
Carrying value of loans and leases:								

Individually evaluated for impairment	$ 279	$ 1,832	$ 4,394