

BRYN MAWR BANK CORP
Form 10-Q
November 09, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For Quarter ended September 30, 2007

Commission File Number 0-15261

Bryn Mawr Bank Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

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

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

19010
(Zip Code)

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

Not Applicable

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

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

(dollars in thousands, except per share data)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Net interest income:				
Interest income and fees:				
Loans and leases	\$ 13,499	\$ 11,418	\$ 38,083	\$ 31,961
Federal funds sold	65	44	112	128
Interest bearing deposits with banks	42	11	56	24
Investment securities	541	544	1,667	1,347
Total interest income	14,147	12,017	39,918	33,460
Interest expense:				
Savings, NOW, and market rate accounts	1,041	1,029	3,015	2,784
Time deposits	2,282	2,025	6,449	4,952
Wholesale deposits	1,630	278	3,183	298
Borrowed funds	495	295	1,682	552
Total interest expense	5,448	3,627	14,329	8,586
Net interest income	8,699	8,390	25,589	24,874
Loan and lease loss provision		258	490	621
Net interest income after loan and lease loss provision	8,699	8,132	25,099	24,253
Non-interest income:				
Fees for wealth management services	3,310	3,013	10,020	9,181
Service charges on deposit accounts	363	388	1,079	1,164
Loan servicing and other fees	276	271	833	843
Net gain on sale of loans	358	268	897	772
Net gain on sale of OREO			110	
Net gain on sale of real estate			1,333	
BOLI income	175		259	
Other operating income	689	623	1,850	1,777
Total non-interest income	5,171	4,563	16,381	13,737
Non-interest expenses:				
Salaries and wages	4,536	4,166	12,565	11,829
Employee benefits	1,056	830	3,334	3,279
Occupancy and bank premises	739	636	2,137	1,902
Furniture, fixtures, and equipment	522	486	1,542	1,444
Advertising	237	187	908	660
Amortization of mortgage servicing rights	88	88	257	258

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Professional fees	342	285	1,213	791
Other operating expenses	1,260	1,152	4,012	3,414
Total non-interest expenses	8,780	7,830	25,968	23,577
Income before income taxes	5,090	4,865	15,512	14,413
Income taxes	1,635	1,630	4,990	4,905
Net income	\$ 3,455	\$ 3,235	\$ 10,522	\$ 9,508
Basic earnings per share	\$ 0.41	\$ 0.38	\$ 1.23	\$ 1.11
Diluted earnings per share	\$ 0.40	\$ 0.37	\$ 1.22	\$ 1.09
Dividends declared per share	\$ 0.13	\$ 0.12	\$ 0.37	\$ 0.34
Weighted-average basic shares outstanding	8,520,843	8,575,170	8,545,828	8,574,420
Dilutive potential common shares	76,385	109,995	103,315	110,044
Weighted-average dilutive shares outstanding	8,597,228	8,685,165	8,649,143	8,684,464

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

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

	September 30,	December 31,
(dollars in thousands, except per share data)	2007	2006
Assets		
Cash and due from banks	\$ 21,330	\$ 61,473
Interest bearing deposits with banks	1,002	532
Total cash and cash equivalents	22,332	62,005
Investment securities available for sale, at fair value (amortized cost of \$43,842 and \$48,632 as of September 30, 2007 and December 31, 2006, respectively)	43,720	48,232
Loans held for sale	5,757	3,726
Portfolio loans and leases	775,223	681,291
Less: Allowance for loan and lease losses	(8,292)	(8,122)
Net portfolio loans and leases	766,931	673,169
Premises and equipment, net	16,604	16,571
Accrued interest receivable	4,331	4,232
Deferred income taxes	3,071	2,946
Mortgage servicing rights	2,812	2,883
Bank Owned Life Insurance (BOLI)	15,259	
Other assets	13,891	12,896
Total assets	\$ 894,708	\$ 826,660
Liabilities		
Deposits:		
Noninterest-bearing demand	\$ 138,254	\$ 198,546
Savings, NOW and market rate accounts	274,606	295,521
Time deposits	194,199	170,446
Wholesale deposits	114,565	49,976
Total deposits	721,624	714,489
Borrowed funds	68,500	15,000
Accrued interest payable	4,572	4,346
Other liabilities	11,156	10,442
Total liabilities	805,852	744,277
Shareholders equity		
Common stock, par value \$1; authorized 25,000,000 shares; issued 11,426,882 and 11,373,182 shares as of September 30, 2007 and December 31, 2006 respectively and outstanding of 8,518,634 and 8,562,209 shares as of September 30, 2007 and December 31, 2006, respectively	11,427	11,373
Paid-in capital in excess of par value	11,564	10,598
Accumulated other comprehensive income, net of taxes	(3,978)	(4,450)
Retained earnings	99,466	92,106

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	118,479	109,627
Less: Common stock in treasury at cost 2,908,248 and 2,810,973 shares as of September 30, 2007 and December 31, 2006 respectively	(29,623)	(27,244)
Total shareholders equity	88,856	82,383
Total liabilities and shareholders equity	\$ 894,708	\$ 826,660
Book value per share	\$ 10.43	\$ 9.62

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

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

(dollars in thousands)	Nine Months Ended September 30	
	2007	2006
Operating activities:		
Net income	\$ 10,522	\$ 9,508
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Provision for loan and lease losses	490	621
Provision for depreciation and amortization	1,188	1,096
Loans originated for resale	(69,363)	(52,563)
Proceeds from loans sold	68,228	48,479
Gain on sale of loans	(897)	(772)
Gain on sale of real estate	(1,333)	
Provision for deferred income taxes (benefit)	(373)	(1,065)
Change in income tax payable/receivable	1,014	245
Change in accrued interest receivable	(99)	(592)
Change in accrued interest payable	226	1,443
Change in mortgage servicing rights, net	71	58
Other, net	(1,130)	(935)
Net cash provided by operating activities	8,544	5,523
Investing activities:		
Purchases of investment securities	(2,511)	(24,858)
Proceeds from maturity of investment securities and mortgage-backed securities pay downs	7,233	5,627
Proceeds from calls of investment securities		
Proceeds from sale of real estate	1,850	
Purchase of Bank Owned Life Insurance (BOLI)	(15,000)	
Net portfolio loan and lease (originations) repayments	(94,253)	(71,938)
Net change in premises and equipment	(1,660)	(1,878)
Sale of other real estate owned (OREO)	110	25
Net cash used by investing activities	(104,231)	(93,022)
Financing activities:		
Change in demand, NOW, savings and market rate deposit accounts	(81,207)	(52,358)
Change in time deposits	23,753	24,390
Change in wholesale deposits	64,589	29,963
Dividends paid	(3,162)	(2,916)
Change in borrowed funds	53,500	46,300
Purchase of treasury stock	(2,419)	(1,559)
Tax benefit from exercise of stock options	168	197
Proceeds from exercise of stock options	792	1,305
Net cash provided by financing activities	56,014	45,322
Change in cash and cash equivalents	(39,673)	(42,177)
Cash and cash equivalents at beginning of period	62,005	66,642

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Cash and cash equivalents at end of period	\$ 22,332	\$ 24,465
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Supplemental cash flow information:

Cash paid during the year for:

Income taxes paid	\$ 4,188	\$ 5,412
Interest paid	\$ 14,103	\$ 7,143

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

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

(dollars in thousands)	Three Months Ended September 30	
	2007	2006
Net income	\$ 3,455	\$ 3,235
Other comprehensive income:		
Unrealized investment gains (losses) net of tax expense (benefit) \$163 and \$245, respectively	304	454
Change in unfunded pension liability, net of tax (benefit) expense of \$150 and \$0, respectively	281	
Total comprehensive income	\$ 4,040	\$ 3,689

(dollars in thousands)	Nine Months Ended September 30	
	2007	2006
Net income	\$ 10,522	\$ 9,508
Other comprehensive income:		
Unrealized investment gains (losses) net of tax expense (benefit) \$98 and \$79, respectively	181	148
Change in unfunded pension liability, net of tax (benefit) expense of \$157 and \$0, respectively	291	
Total comprehensive income	\$ 10,994	\$ 9,656

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

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

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

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

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

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

2. Earnings Per Common Share:

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

(dollars in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
Numerator:				
Net income available to common shareholders	\$ 3,455	\$ 3,235	\$ 10,522	\$ 9,508
Denominator for basic earnings per share - weighted average shares				
outstanding	8,520,843	8,575,170	8,545,828	8,574,420
Effect of dilutive potential common shares	76,385	109,995	103,315	110,044
Denominator for diluted earnings per share - adjusted weighted average				
shares outstanding	8,597,228	8,685,165	8,649,143	8,684,464
Basic earnings per share	\$ 0.41	\$ 0.38	\$ 1.23	\$ 1.11
Diluted earnings per share	\$ 0.40	\$ 0.37	\$ 1.22	\$ 1.09
Antidilutive shares excluded from computation of average dilutive earnings per share	61,467	2,250	30,395	3,250

3. Allowance for Loan and Lease Losses

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

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

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

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

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

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

The Corporation's stock-based compensation expense for the nine months ended September 30, 2007 and 2006 was \$35 thousand and \$57 thousand, respectively. This expense had no material impact on earnings or diluted earnings per share in either period.

On April 25, 2007 the Shareholders approved the Corporation's 2007 Long-Term Incentive Plan (LTIP). The purpose of the LTIP is to promote the success and enhance the value of the Corporation by providing long term incentives to directors and employees of the Corporation. The Corporation's LTIP permits the issuance of stock options, dividend equivalents, performance awards, stock appreciation rights, restricted stock and/or restricted stock units to employees and directors of the Corporation. The terms and conditions of awards under the LTIP are determined by the Corporation's Compensation Committee. For stock options, the option price is the closing price for the stock on the day preceding the date of the grant. Stock options are exercised over a period determined by the Compensation Committee; however, the option period will not be longer than ten years from the date of the grant. A total of 428,996 shares of the Corporation's common stock were made available by the Board of Directors in April, 2007 for grants of awards under the LTIP. As of September 30, 2007 there were 300,496 available for future grant. On August 29, 2007, 128,500 option grants were issued to employees and directors at a price of \$22, the closing price on August 28, 2007. These grants were issued with a ten year maturity and vest over a five year period at 20% per year on the anniversary of the grant date. The Corporation's practice is to issue option related shares from authorized but unissued shares.

Stock Option Plans authorized prior to April 25, 2007 have 10,189 share available for future grant as of September 30, 2007. The option price is set at the closing price for the stock on the day preceding the date of the grants. Options granted may either be incentive stock options within the meaning of the Internal Revenue Code, or non-qualified options. The stock options are exercisable over a period determined by the Compensation Committee; however, the option period will not be longer than ten years from the date of the grant. The vesting period of option grants issued is also determined by the Corporation's Compensation Committee. During the first quarter of 2007, 4,000 option grants were issued with a three-year vesting period.

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

		Weighted	Weighted
		Average	Average Grant
	Shares	Exercise Price	Date Fair Value
Options outstanding June 30, 2007	740,200	\$ 17.90	\$ 3.89
Granted	128,500	22.00	4.90
Forfeited			
Expired			
Exercised			

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Options outstanding September 30, 2007	868,700	\$	18.51	\$	4.04
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The following table provides information about unvested options for the three-months ended September 30, 2007:

		Weighted	Weighted
		Average	Average Grant
	Shares	Exercise Price	Date Fair Value
Unvested options June 30, 2007	14,167	\$ 23.23	\$ 6.60
Granted	128,500	22.00	4.90
Vested			
Forfeited			
Unvested options September 30, 2007	142,667	\$ 22.12	\$ 5.07

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

		Weighted	Weighted
		Average	Average Grant
	Shares	Exercise Price	Date Fair Value
Options outstanding December 31, 2006	789,900	\$ 17.66	\$ 3.81
Granted	132,500	22.05	4.96
Forfeited			
Expired			
Exercised	(53,700)	14.75	3.04
Options outstanding September 30, 2007	868,700	\$ 18.51	\$ 4.04

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

		Weighted	Weighted
		Average	Average Grant
	Shares	Exercise Price	Date Fair Value
Unvested options December 31, 2006	11,375	\$ 22.89	\$ 6.44
Granted	132,500	22.05	4.96
Vested	(1,208)	21.83	5.90
Forfeited			
Unvested options September 30, 2007	142,667	\$ 22.12	\$ 5.07

The total not-yet-recognized compensation expense of unvested stock options is \$690,000. This expense will be recognized over a weighted average period of 56 months.

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

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	2007	2006
Proceeds from strike price of options exercised	\$ 792,000	\$ 1,305,000
Related tax benefit recognized	168,000	197,000
Proceeds of options exercised	\$ 960,000	\$ 1,502,000
Intrinsic value of options exercised	\$ 481,000	\$ 564,000

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

	Outstanding	Exercisable
Number	868,700	726,033
Weighted average exercise price	\$ 18.51	\$ 17.80
Aggregate intrinsic value	\$ 3,043,421	\$ 3,042,983
Weighted average contractual term (in years)	6.46	5.79

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For the three months ended September 30, 2007 the fair value of option grants was determined at the date of grant using a Black-Scholes Option Pricing Model and the following assumptions:

Expected average risk-free interest rate	4.40%
Expected average life (in years)	6.89 years
Expected volatility	20.03%
Expected dividend yield	2.36%

5. Pension and Other Post-Retirement Benefit Plans

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

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

	For Three months					
	Ended September 30					
	Non-Qualified		Defined Benefit		Post-Retirement Benefit Plan	
	Pension Plan	Qualified Pension Plan	Qualified Pension Plan	Post-Retirement Benefit Plan	2007	2006
	2007	2006	2007	2006	2007	2006
Service cost	\$ 15	\$ 10	\$ 313	\$ 238	\$ 1	\$ 3
Interest cost	28	24	438	375	19	10
Expected return on plan assets			(637)	(553)		
Amortization of transition obligation					6	7
Amortization of prior service costs	11	12	20	21	(34)	(35)
Amortization of net (gain) loss	6		114	84	14	(7)
Net periodic benefit cost	\$ 60	\$ 46	\$ 248	\$ 165	\$ 6	\$(22)

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

	For Nine months					
	Ended September 30					
	Non-Qualified Defined Benefit Pension Plan		Qualified Defined Benefit Pension Plan		Post-Retirement Benefit Plan	
	2007	2006	2007	2006	2007	2006
Service cost	\$ 46	\$ 28	\$ 938	\$ 866	\$ 3	\$ 9
Interest cost	85	74	1,314	1,193	57	81
Expected return on plan assets			(1,910)	(1,667)		
Amortization of transition obligation					19	19
Amortization of prior service costs	33	36	61	61	(103)	(103)
Amortization of net (gain) loss	19		343	366	43	95

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Net periodic benefit cost	\$ 183	\$ 138	\$ 746	\$ 819	\$ 19	\$ 101
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As stated in the Corporation's 2006 Annual Report, the Corporation does not have any minimum funding requirement for its QDBP for 2007. The Corporation contributed \$97 thousand during the first nine months of 2007 and is expected to contribute approximately \$130 thousand to the SERP plan for 2007. Additionally, the Corporation contributed \$136 thousand to the PRBP during the first nine months of 2007 and expects to contribute an additional \$62 thousand in 2007. As of September 30, 2007 no contributions have been made to QDBP for 2007.

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

Table of Contents**6. Segment Information**

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

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

(Dollars in thousands)	Wealth		2007 Mortgage	All	Consolidated
	Banking	Management	Banking	Other	
Net interest income	\$ 8,679		\$ 17	\$ 3	\$ 8,699
Less: Loan loss provision					
Net interest income after loan and lease loss provision	8,679		17	3	8,699
Other income:					
Fees for wealth management services		3,310			3,310
Service charges on deposit accounts	363				363
Loan servicing and other fees	55		221		276
Net gain on sale of loans			358		358
Net gain on sale of real estate					
BOLI income	175				175
Other income	573		54	62	689
Total other income	1,166	3,310	633	62	5,171
Other expenses:					
Salaries and wages	3,006	1,152	302	76	4,536
Employee benefits	791	211	44	10	1,056
Occupancy and bank premises	1,121	136	44	(40)	1,261
Other operating expense	1,545	242	213	(73)	1,927
Total other expense	6,463	1,741	603	(27)	8,780
Segment profit before income taxes	3,382	1,569	47	92	5,090
Intersegment pretax revenues (expenses)*	153	45	10	(208)	
Segment pretax profit (loss)	\$ 3,535	\$ 1,614	\$ 57	\$ (116)	\$ 5,090
% of segment pretax profit (loss)	69.5%	31.7%	1.1%	(2.3%)	100%

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

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

(Dollars in thousands)	Wealth		2006 Mortgage	All	Consolidated
	Banking	Management	Banking	Other	
Net interest income	\$ 8,384		\$ 5	\$ 1	\$ 8,390
Less: Loan loss provision	258				258
Net interest income after loan loss provision	8,126		5	1	8,132
Other income:					
Fees for wealth management services		3,013			3,013
Service charges on deposit accounts	388				388
Loan servicing and other fees	9		262		271
Net gain on sale of loans			268		268
Other operating income	442		78	103	623
Total other income	839	3,013	608	103	4,563
Other expenses:					
Salaries and wages	2,886	1,054	177	49	4,166
Employee benefits	580	210	30	10	830
Occupancy and bank premises	969	145	39	(31)	1,122
Other operating expense	1,366	254	154	(62)	1,712
Total other expense	5,801	1,663	400	(34)	7,830
Segment profit before income taxes	3,164	1,350	213	138	4,865
Intersegment pretax revenues (expenses)*	122	45		(167)	
Segment pretax profit (loss)	\$ 3,286	\$ 1,395	\$ 213	\$ (29)	\$ 4,865
% of segment pretax profit (loss)	67.5%	28.7%	4.4%	(0.6%)	100%

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

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Segment information for the nine months ended September 30, 2007 is as follows:

(Dollars in thousands)	Wealth		2007 Mortgage	All	Consolidated
	Banking	Management	Banking	Other	
Net interest income	\$ 25,513	\$	\$ 69	\$ 7	\$ 25,589
Less: Loan loss provision	490				490
Net interest income after loan and lease loss provision	25,023		69	7	25,099
Other income:					
Fees for wealth management services		10,020			10,020
Service charges on deposit accounts	1,079				1,079
Loan servicing and other fees	94		739		833
Net gain on sale of loans			897		897
Net gain on sale of real estate	1,333				1,333
BOLI income	259				259
Other income	1,586		222	152	1,960
Total other income	4,351	10,020	1,858	152	16,381
Other expenses:					
Salaries and wages	8,333	3,359	673	200	12,565
Employee benefits	2,566	631	105	32	3,334
Occupancy and bank premises	3,264	413	121	(119)	3,679
Other operating expense	5,234	762	525	(131)	6,390
Total other expense	19,397	5,165	1,424	(18)	25,968
Segment profit before income taxes	9,977	4,855	503	177	15,512
Intersegment pretax revenues (expenses) *	472	135	30	(637)	
Segment pretax profit (loss)	\$ 10,449	\$ 4,990	\$ 533	\$ (460)	\$ 15,512
% of segment pretax profit (loss)	67.4%	32.2%	3.4%	(3.0%)	100%

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

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Segment information for the nine months ended September 30, 2006 is as follows:

(Dollars in thousands)	Wealth		2006 Mortgage	All	Consolidated
	Banking	Management	Banking	Other	
Net interest income	\$ 24,803	\$	\$ 58	\$ 13	\$ 24,874
Less: Loan loss provision	621				621
Net interest income after loan loss provision	24,182		58	13	24,253
Other income:					
Fees for wealth management services		9,181			9,181
Service charges on deposit accounts	1,164				1,164
Loan servicing and other fees	29		814		843
Net gain on sale of loans			772		772
Net gain on sale of real estate					
Other operating income	1,348		187	242	1,777
Total other income	2,541	9,181	1,773	242	13,737
Other expenses:					
Salaries and wages	7,995	3,145	486	203	11,829
Employee benefits	2,518	637	89	35	3,279
Occupancy and bank premises	2,856	453	129	(92)	3,346
Other operating expense	4,118	767	465	(227)	5,123
Total other expense	17,487	5,002	1,169	(81)	23,577
Segment profit (loss) before income taxes	9,236	4,179	662	336	14,413
Intersegment pretax revenues (expenses) *	484	135		(619)	
Segment pretax profit (loss)	\$ 9,720	\$ 4,314	\$ 662	\$ (283)	\$ 14,413
% of segment pretax profit (loss)	67.4%	29.9%	4.6%	(1.9%)	100.0%

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

(dollars in millions)	2007	2006
Wealth Management Segment:		
Wealth Assets Under Management and Administration	\$ 2,675.3	\$ 2,243.6
Mortgage Banking Segment:		
Mortgage Loans Serviced for Others	\$ 364.7	\$ 385.9
Mortgage Servicing Rights	\$ 2.8	\$ 2.9

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

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

(dollars in thousands)	2007	2006
Balance, January 1	\$ 2,883	\$ 2,982
Additions	186	200
Amortization	(244)	(248)
Impairment	(13)	(10)
 Balance, September 30	 \$ 2,812	 \$ 2,924
 Fair Value	 \$ 4,049	 \$ 4,424

There was \$13 thousand of temporary impairment on MSRs for the nine months ended September 30, 2007 and \$10 thousand for the nine months ended September 30, 2006.

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

(dollars in thousands)	September 30, 2007
Fair value amount of MSRs	\$ 4,049
Weighted average life (in years)	6.7
Prepayment speeds (constant prepayment rate)*:	11.5
Impact on fair value:	
10% adverse change	\$ (161)
20% adverse change	\$ (318)
Discount rate:	10.0%
Impact on fair value:	
10% adverse change	\$ (109)
20% adverse change	\$ (219)

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

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

8. Impaired Loans and Leases

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

(dollars in thousands)	As of and for the Nine Months Ended September 30, 2006	As of and for the Twelve Months Ended December 31, 2006
------------------------	-----------------------------------------------------------------	---------------------------------------------------------------------

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	2007		
Period end balance	\$ 852	\$ 794	\$ 704
Average period to date balance	479	810	801
Loans and leases with specific loss allowances			
Charge offs and recoveries			115
Loss allowances reserved			
Period to date income recognized	\$ 46	\$ 6	\$ 39

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9. Capital

The Corporation declared and paid a regular dividend of \$0.13 per share, during the third quarter of 2007. This payment totaled \$1.107 million.

During the first nine months of 2007, the Corporation repurchased 101,403 shares of its common stock for \$2.419 million at an average purchase price of \$23.86 per share.

10. New Accounting Pronouncements

FIN 48

The Corporation adopted the provisions of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) on January 1, 2007. As required by FIN 48, which clarifies FAS 109, *Accounting for Income Taxes*, the Corporation recognizes the financial statement benefit of a tax position only after determining that the Corporation would more likely than not sustain the position following an examination. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon settlement with the relevant tax authority. At the adoption date, the Corporation applied these criteria to all tax positions for which the statute of limitations remained open. There were no adjustments to retained earnings for unrecognized tax benefits as a result of the implementation of FIN 48.

The Corporation is subject to income taxes in the U.S. federal jurisdiction, and in multiple state jurisdictions. The Corporation is no longer subject to U.S. federal income tax examination by tax authorities for the years before 2004. The Corporation's 2005 tax year is currently under audit by the Internal Revenue Service.

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

FAS 155

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

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

FAS 156

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

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

FAS 157

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

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

FAS 159

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

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

11. Significant Customer Disclosure

On May 1, 2007 a significant Wealth Division customer announced its intention to be acquired by another financial institution in a business combination. The acquiring financial institution provides wealth management services similar to that of the Corporation's Wealth Management Division. According to documents filed with The Securities and Exchange Commission, this transaction is expected to close on November 16, 2007. The Wealth Management revenue related to this institutional client for the three month period ended September 30, 2007 and 2006 were \$141 thousand and \$103 thousand, respectively. On a year to date basis, fees related to this institutional client were approximately \$500 thousand and \$306 thousand for 2007 and 2006, respectively. Wealth assets under management and administration at September 30, 2007, December 31, 2006 and September 30, 2006 relating to this client were approximately \$423.3 million, \$412.4 million and \$266.5 million, respectively.

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

Special Cautionary Notice Regarding Forward Looking Statements Certain of the statements contained in this Report and the documents incorporated by reference herein, may constitute forward-looking statements for the purposes of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended, and may involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Corporation to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements include statements with respect to the Corporation's financial goals, business plans, business prospects, credit quality, credit risk, reserve adequacy, liquidity, origination and sale of residential mortgage loans, impairment of goodwill, the effect of changes in accounting standards, and market and pricing trends. The words expect, anticipate, intended, plan, believe, seek, estimate, and similar expressions are intended to identify such forward-looking statements. The Corporation's actual results may differ materially from the results anticipated by the forward-looking statement due to a variety of factors, including without limitation:

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

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

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

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changes in accounting requirements or interpretations;

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

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

the effects of competition from other commercial banks, thrifts, mortgage companies, finance companies, credit unions, securities brokerage firms, insurance companies, money-market and mutual funds and other institutions operating in the Corporation's trade market area and elsewhere including institutions operating locally, regionally, nationally and internationally together with such competitors offering banking products and services by mail, telephone, computer and the internet;

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

the ability to fund earning asset growth;

the Corporation's ability to continue to generate investment results for customers and the ability to continue to develop investment products in a manner that meets customers needs;

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

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

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

technological changes being more difficult or expensive than anticipated;

the Corporation's success in managing the risks involved in the foregoing; and

any extraordinary event.

All written or oral forward-looking statements attributed to the Corporation are expressly qualified in their entirety by use of the foregoing cautionary statements. All forward-looking statements included in this Report are based upon information presently available, and the Corporation assumes no obligation to update any forward-looking statement.

Brief History of the Corporation

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

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

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

Results of Operations

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

and may not be indicative of, similar performance in the future. These interim financial statements are unaudited.

Critical Accounting Policies, Judgments and Estimates

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

The allowance for loan and lease losses involves a higher degree of judgment and complexity than other significant accounting policies. The allowance for loan and lease losses is calculated with the objective of maintaining a reserve level

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believed by Management to be sufficient to absorb estimated probable credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan and lease portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, expected commitment usage, the amounts and timing of expected future cash flows on impaired loans and leases, value of collateral, estimated losses on consumer loans and residential mortgages and general amounts for historical loss experience. The process also considers economic conditions, international events, and inherent risks in the loan and lease portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from Management estimates, additional provisions for loan and lease losses may be required that would adversely impact earnings in future periods. See the section of this document titled Asset Quality and Analysis of Credit Risk for additional information.

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

Executive Overview

The Corporation reported third quarter 2007 diluted earnings per share of \$0.40, an increase of \$0.03 or 8.1% compared with the same period in 2006. Net income for the third quarter of 2007 was \$3.455 million, an increase of 6.8% or \$220 thousand compared to \$3.235 million in last year's third quarter. Return on average equity (ROE) and return on average assets (ROA) for the quarter ended September 30, 2007, were 15.85% and 1.56%, respectively. ROE was 15.58% and ROA was 1.69% for the same period last year. Solid loan and lease growth, increases in non-interest income and a lower provision for loan and lease losses, partially offset by increased funding costs and incremental costs associated with new business initiatives, contributed to the increase in earnings.

The Corporation continues to deliver solid results in a challenging banking market. Earnings growth this quarter was the direct result of a differentiated business model and efforts to expand the business portfolio and invest in entrepreneurial ventures such as BMT Leasing, our equipment leasing company. The third quarter results reflect a solid performance.

Due to the stability of the Corporation's business model, the well-publicized national credit crunch has led to opportunities for the Corporation's residential and other lending units to grow with desirable borrowers as certain competitors have withdrawn from the market. In this environment, the Corporation was able to increase portfolio loans and leases by 16.2% or over \$108.1 million since September 30, 2006. The Corporation's tax equivalent net interest income was up 3.4% for the three months ended September 30, 2007 compared to the same period last year.

Anticipating a one-time gain on the sale of real estate during the first quarter of 2007, an investment was made in several new business initiatives in the latter part of 2006 continuing through 2007. These initiatives include the September 2006 formation of the equipment leasing company and the fall 2006 start-up of a loan production office in West Chester. The 2007 initiatives include the grand opening of the Corporation's new Ardmore branch, the roll-out of the Private Banking Group, and the formation of BMT Mortgage Group to augment the Corporation's existing mortgage operations.

Other 2007 growth initiatives include investments in additional personnel, product offerings and service enhancements in the Wealth Division with the goal of increasing assets under management and administration. During the third quarter of 2007, an experienced financial planner was hired to enhance the Wealth Division's overall financial planning services and a new separately-managed investment product was launched. The Corporation is also developing plans to establish a Limited Purpose Trust Company (LPTC) in the State of Delaware in 2008 which will empower the organization to serve as a corporate fiduciary under Delaware statutes, which are more favorable for individuals and families.

With regard to Wealth Management initiatives, the Corporation is making investments to further enhance and differentiate the wealth business. The rollout of a separately-managed investment product platform enables clients to tap into best of breed money managers across a wide range of investment disciplines. At the same time, enhancements are being made to the wealth management operation to make it a more potent platform for earnings growth. Planned expansion into Delaware will open up a national market for these product offerings.

Third quarter 2007 results reflect the financial impact of the current interest rate environment as tax equivalent net interest income grew 3.4% to \$8.774 million from \$8.484 million in the third quarter of 2006 and 2.0% from \$8.605 million in the second quarter of 2007. The increase in tax equivalent net interest income in the third quarter of 2007 compared to the same period last year was the result of a \$107.4 million increase or 15.2% increase in quarterly average interest earning assets, partially offset by a 49 basis point decrease in the Corporation's tax equivalent net interest margin to 4.29% from 4.78%. The increase in tax equivalent net interest income in the third quarter of 2007 compared to the second quarter of 2007 was the

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result of a very strong \$43.6 million increase or 5.7% increase in quarterly average interest earning assets, partially offset by a 20 basis point decrease in the Corporation's tax equivalent net interest margin to 4.29% from 4.49%.

The Corporation's 15.2% increase in average earning assets in the third quarter of 2007 compared with the third quarter of 2006 is attributed primarily to the \$109.0 million or 16.9% increase in quarterly average loans and leases. At the same time, savings, market rate, time and demand deposit growth over the past nine months has been slightly negative with incremental funding coming from higher-cost wholesale deposits and borrowings. The Corporation expects continued downward pressure on the tax equivalent net interest margin as earning asset growth is expected to continue at a faster rate than growth in the transaction and time deposit accounts mentioned above.

The Corporation reported nine month 2007 diluted earnings per share of \$1.22, an increase of \$0.13 per share or 11.9% compared to \$1.09 per share in the same period of 2006. Net income for the nine month period ended September 30, 2007 was \$10.522 million, an increase of 10.7% or \$1.014 million, compared to \$9.508 million in last year's first nine months. The primary factor contributing to the increase in earnings for the nine month period was a \$0.10 per share or \$866 thousand after-tax gain on the sale of real estate that previously served as the Bank's Wynnewood branch location. Excluding the real estate gain, year to date 2007 diluted earnings per share of \$1.12 were up \$0.03 or 2.8% from the same period last year and net income of \$9.656 million was \$148 thousand or 1.6% more than the prior year amount of \$9.508 million.

Return on average equity (ROE) and return on average assets (ROA) for the nine months ended September 30, 2007 were 16.58% (15.21% excluding the real estate gain) and 1.69% (1.55% excluding the real estate gain), respectively. ROE was 15.84% and ROA was 1.75% for the same period last year. The tax equivalent net interest margin for the first nine months of 2007 was 4.47% compared with 4.99% in the same period last year.

Total portfolio loans and leases at September 30, 2007 were \$775.2 million, an increase of \$108.1 million or 16.2% from \$667.1 million at September 30, 2006 and an increase of \$93.9 million or 13.8% from 2006 year end balances of \$681.3 million. Leases at September 30, 2007 of \$37.5 million were 4.8% of total portfolio loans and leases and are expected to continue to grow by approximately \$2.5 million to \$3.5 million per month.

Credit quality on the overall loan and lease portfolio remains strong as total non-performing loans and leases of \$856 thousand represent less than 11 basis points of portfolio loans and leases at September 30, 2007. This compares with 24 basis points or \$1.6 million at September 30, 2006. The provision for loan and lease losses for the quarter and nine months ended September 30, 2007 were \$0 and \$490 thousand respectively, compared with \$258 thousand and \$621 thousand for the same periods last year, respectively. At September 30, 2007, the allowance for loan and lease losses of \$8.292 million represents 1.07% of portfolio loans and leases compared with 1.19% at December 31, 2006. See the section of this document titled Asset Quality and Analysis of Credit Risk for additional information.

Funding from wholesale sources at September 30, 2007 included \$114.6 million in wholesale certificates of deposit and \$68.5 million in Federal Home Loan Bank (FHLB) borrowings. This compares with \$50.0 million and \$15.0 million in wholesale certificates and FHLB borrowings, respectively, at December 31, 2006. The Corporation expects its reliance on wholesale funding to continue to increase.

Non-interest income for the third quarter of 2007 was up 13.3% over the third quarter of 2006. This increase was partially driven by a 9.9% increase in Wealth Management revenues for the quarter ended September 30, 2007 compared with the same period last year. Also contributing to the increase over last year was income relating to a May 2007 bank-owned-life-insurance (BOLI) transaction and a 33.6% increase in mortgage loan sale revenue.

For the nine month period ended September 30, 2007, non-interest income excluding the real estate gain on the Wynnewood property, was up 9.5% over the same period last year. The primary factor for this increase was an increase in year-to-date Wealth Division revenue which was 9.1% higher than the same period last year. The balance of the increase in non-interest income was due to BOLI income, stronger mortgage loan sale revenue and a gain on the sale of other real estate owned.

Wealth Management revenues for the quarter ended September 30, 2007 and September 30, 2006 include \$141 thousand and \$103 thousand, respectively, of fees relating to the investment management services provided to one institutional client. This client is being acquired by another financial institution that provides investment management services in a business combination. The Corporation has been notified that this business combination is expected to close November 16, 2007, and will result in the termination of this relationship's revenue and assets. On a year to date basis, fees related to this institutional client were approximately \$500 thousand and \$306 thousand for 2007 and 2006, respectively. Wealth assets under Management and Administration at September 30, 2007, December 31, 2006 and September 30, 2006 relating to this client were approximately \$423.3 million, \$412.4 million and \$266.5 million, respectively.

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Non-interest expense for the third quarter of 2007 was 12.1% higher than the third quarter of 2006. The increase in non-interest expenses is primarily due to personnel costs associated with the new initiatives discussed above along with overall employee benefit expense cost increases and occupancy costs associated with the new Ardmore branch. For the nine month period ended September 30, 2007, non-interest expense was 10.1% over the same period last year. Personnel costs associated with the new business initiatives, Ardmore branch operating costs, advertising costs, and additional professional fees were the primary contributors to this increase in non-interest expenses.

The Corporation's effective tax rate for the three and nine month periods ended September 30, 2007 were 32.1% and 32.2%, respectively, compared to 33.5% and 34.0% for the same periods, respectively, in 2006. The decrease in the tax rate in 2007 is partially attributable to tax free income recognized from the May 2007 BOLI transaction.

In other business, the Corporation's Board of Directors declared a regular quarterly dividend of \$0.13 per share, payable December 1, 2007, to shareholders of record as of November 5, 2007.

Key Performance Ratios

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

	Three Months Ended September 30		Nine Months Ended September 30		
	2007	2006	2007*	2007	2006
Return on Average Equity (ROE)	15.85%	15.58%	15.21%	16.58%	15.84%
Return on Average Assets (ROA)	1.56%	1.69%	1.55%	1.69%	1.75%
Efficiency Ratio	63.31%	60.45%	63.90%	61.87%	61.06%
Net Interest Margin (TE)	4.29%	4.78%	4.47%	4.47%	4.99%
Diluted Earnings Per share	\$ 0.40	\$ 0.37	\$ 1.12	\$ 1.22	\$ 1.09
Dividend Per Share	\$ 0.13	\$ 0.12	\$ 0.37	\$.37	\$ 0.34

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

	September 30	December 31	September 30
	2007	2006	2006
Book Value Per Share	\$ 10.43	\$ 9.62	\$ 9.83
Allowance for loan and lease losses as a Percentage of Loans	1.07%	1.19%	1.20%

Reconciliation of Non-GAAP Information for the three months and nine months ended September 30, 2007

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

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See the table below for a reconciliation of GAAP net income, diluted earnings per share, non-interest income, return on equity, return on assets and the efficiency ratio to comparable data that excludes the gain on sale of real estate.

(dollars in thousands, except per share data)

Three Months Ended March 31, 2007:	Non-interest							
	Net Income		Change		Income		Change	
	2007	2006	Dollars	Percentage	2007	2006	Dollars	Percentage
As reported (GAAP)	\$ 3,976	\$ 3,136	\$ 840	26.8%	\$ 6,146	\$ 4,599	\$ 1,547	33.6%
Non-GAAP adjustment ¹	(866)		(866)	(27.6)%	(1,333)		(1,333)	(29.0)%
Adjusted (Non-GAAP)	\$ 3,110	\$ 3,136	\$ (26)	(0.8)%	\$ 4,813	\$ 4,599	\$ 214	4.6%

	Diluted Earnings Per Share		Return on Equity		Return on Assets		Efficiency Ratio	
	2007	2006	2007	2006	2007	2006	2007	2006
	As reported (GAAP)	\$ 0.46	\$ 0.36	19.36%	16.27%	2.03%	1.83%	58.08%
Non-GAAP adjustment ¹	(0.10)		(4.21)%		(0.44)%		5.88%	
Adjusted (Non-GAAP)	\$ 0.36	\$ 0.36	15.15%	16.27%	1.59%	1.83%	63.96%	61.39%

Nine Months Ended September 30, 2007:	Non-interest							
	Net Income		Change		Income		Change	
	2007	2006	Dollars	Percentage	2007	2006	Dollars	Percentage
As reported (GAAP)	\$ 10,522	\$ 9,508	\$ 1,014	10.7%	\$ 16,381	\$ 13,737	\$ 2,644	19.2%
Non-GAAP adjustment ¹	(866)		(866)	(9.1)%	(1,333)		(1,333)	(9.7)%
Adjusted (Non-GAAP)	\$ 9,656	\$ 9,508	\$ 148	(1.6)%	\$ 15,048	\$ 13,737	\$ 1,311	9.5%

	Diluted Earnings Per Share		Return on Equity		Return on Assets		Efficiency Ratio	
	2007	2006	2007	2006	2007	2006	2007	2006
	As reported (GAAP)	\$ 1.22	\$ 1.09	16.58%	15.84%	1.69%	1.75%	61.17%
Non-GAAP adjustment ¹	(0.10)		(1.37)%		(0.14)%		3.04%	
Adjusted (Non-GAAP)	\$ 1.12	\$ 1.09	15.21%	15.84%	1.55%	1.75%	64.21%	61.37%

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

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

(Dollars in thousands)

	Nine Months Ended September 30, 2007				
	Banking	Management	Banking	Other	Consolidated
Segment pretax profit (loss) (GAAP)	\$ 10,449	\$ 4,990	\$ 533	\$ (460)	\$ 15,512
Segment pretax gain on sale of real estate	(1,333)				(1,333)
Segment pretax profit (loss) excluding gain on sale of real estate (Non-GAAP)	\$ 9,116	\$ 4,990	\$ 533	\$ (460)	\$ 14,179
% of segment pretax profit (loss) (GAAP)	67.4%	32.2%	3.4%	(3.0%)	100%
% of segment pretax gain on sale of real estate	(3.1%)				100%
% of segment pretax profit (loss) excluding gain on sale of real estate (Non-GAAP)	64.3%	35.2%	3.8%	(3.3%)	100%

	Nine Months Ended September 30, 2006				
	Banking	Management	Banking	Other	Consolidated
Segment pretax profit (loss) (GAAP)	\$ 9,720	\$ 4,314	\$ 662	\$ (283)	\$ 14,413
% of segment pretax profit (loss) (GAAP)	67.4%	29.9%	4.6%	(1.9%)	100.0%

Components of Net Income

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

NET INTEREST INCOME ON A TAX EQUIVALENT BASIS

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

The tax equivalent net interest income for the three months ended September 30, 2007 of \$8.774 million was \$290 thousand or 3.4% higher than the net interest income for the same period in 2006 of \$8.484 million. The analysis below indicates that interest income increased \$2.111 million for the three months ended September 30, 2007 from the same period in 2006. This increase was primarily due to increased loan and lease volume and an increase in the yield on loans and leases. Average loans and leases grew \$108.5 million to \$759.7 million in the third quarter of 2007 from \$651.2 million in the same period in 2006 and the average tax-equivalent loan and lease yield during the third quarter of 2007 increased to 7.08% or 8 basis points from 7.00% during the same period in 2006.

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However, the growth in tax equivalent interest income was almost entirely offset by an increase in interest expense of \$1.821 million for the three months ended September 30, 2007 from the same period in 2006. The shift in deposits to higher rate certificates of deposit and the need to use more wholesale funding sources due to the challenging environment for new deposits resulted in the increased interest expense. The increase in average wholesale certificates of deposits of \$100.3 million from \$19.9 million in the third quarter of 2006 to \$120.2 million for the same period in 2007 was the largest component of the increased interest expense. Average time deposits increased 3.2% in the third quarter of 2007 compared to the same period in 2006, while average savings, NOW and money market accounts decreased 2.5% or \$7.1 million from \$285.0 million in the third quarter of 2006 to \$277.9 million in the third quarter of 2007. The result of the changes in the

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deposit mix and the increase in borrowed funds increased the rate paid on average interest bearing liabilities to 3.44% in the third quarter of 2007 or 64 basis points from 2.80% in the third quarter of 2006.

Rate /Volume Analysis on a tax equivalent basis

(in thousands)	Three months Ended		
	September 30,		
	2007 Compared to 2006		
Increase/(Decrease)	Volume	Rate	Total
Interest Income:			
Interest-bearing deposits with other banks	\$ 32	\$ (1)	\$ 31
Federal funds sold	21	(1)	20
Investment securities available for sale	(57)	53	(4)
Loans and leases	1,911	153	2,064
Total interest income	1,907	204	2,111
Interest expense:			
Savings, NOW and market rate accounts	\$ (27)	\$ 39	\$ 12
Wholesale deposits	1,397	(45)	1,352
Time deposits	65	191	256
Borrowed funds	219	(18)	201
Total interest expense	1,654	167	1,821
Interest differential	\$ 253	\$ 37	\$ 290

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

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

	For the three months ended September 30,					
	2007			2006		
	Average	Interest	Rates	Average	Interest	Rates
	Income/	Earned/		Income/	Earned/	
	Expense	Paid		Expense	Paid	
(dollars in thousands)	Balance			Balance		
Assets:						
Interest-bearing deposits with other banks	\$ 3,172	\$ 42	5.25%	\$ 807	\$ 11	5.41%
Federal funds sold	4,884	65	5.28%	3,345	45	5.34%
Investment securities available for sale:						
Taxable	39,090	500	5.07%	44,132	503	4.52%
Tax-exempt	4,984	57	4.54%	4,971	58	4.63%
Total investment securities	44,074	557	5.01%	49,103	561	4.53%
Loans and leases ^{(1) (2)}	759,714	13,558	7.08%	651,194	11,494	7.00%
Total interest earning assets	811,844	14,222	6.95%	704,449	12,111	6.82%
Cash and due from banks	22,306			25,373		
Allowance for loan and lease losses	(8,712)			(7,904)		
Other assets	54,074			37,267		
Total assets	\$ 879,512			\$ 759,185		
Liabilities:						
Savings, NOW and market rate accounts	\$ 277,895	\$ 1,041	1.49%	\$ 284,954	\$ 1,029	1.43%
Time deposits	192,999	2,282	4.69%	187,083	2,026	4.30%
Wholesale deposits	120,222	1,630	5.38%	19,956	278	5.53%
Total interest-bearing deposits	591,116	4,953	3.32%	491,993	3,333	2.69%
Borrowed funds	37,319	495	5.26%	21,380	294	5.46%
Total interest-bearing liabilities	628,435	5,448	3.44%	513,373	3,627	2.80%
Noninterest-bearing demand deposits	148,858			149,465		
Other liabilities	15,757			13,966		
Total noninterest-bearing liabilities	164,615			163,431		
Total liabilities	793,050			676,804		
Shareholders' equity	86,462			82,381		
Total liabilities and shareholders' equity	\$ 879,512			\$ 759,185		
Net interest spread			3.51%			4.02%
Effect of noninterest-bearing sources			0.78%			0.76%

Net interest income/ margin on earning assets.	\$ 8,774	4.29%	\$ 8,484	4.78%
Tax equivalent adjustment	\$ 75	0.04%	\$ 94	0.05%

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

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

The tax equivalent net interest income for the nine months ended September 30, 2007 of \$25.853 million was \$720 thousand or 2.9% higher than the net interest income for the same period in 2006 of \$25.133 million. The analysis below indicates that interest income increased \$6.463 million for the nine months ended September 30, 2007 from the same period in 2006. This increase was primarily due to average loans and leases growing \$99.6 million or 16.0% to \$723.4 million in the nine month period ended September 30, 2007 from \$623.8 million in the same period in 2006. The average tax-equivalent loan and lease yield during the first nine month of 2007 of 7.08% was 19 basis points higher than the 6.89% during the same period in 2006.

The growth in tax equivalent interest income was almost entirely offset by an increase in interest expense of \$5.743 million for the nine months ended September 30, 2007 from the same period in 2006. The shift in deposit to higher rate certificates of deposits and need to use more wholesale funding sources due to the challenging environment for new deposits resulted in the increased interest expense. The increase in average wholesale certificates of deposits of \$71.6 million from \$7.2 million for the nine months ended September 30, 2006 to \$78.8 million for the same period in 2007 was the largest component of the increased interest expense. Average time deposits increased 11.6% or \$19.4 million to \$186.0 million in the first nine months of 2007 from \$166.6 million in the same period in 2006, while savings, NOW and money market accounts decreased 5.6% or \$16.5 million from \$294.8 million in the first nine months of 2006 to \$278.3 million in the same period of 2007. The result of the changes in the deposit mix and the use of borrowed funds increased the rate paid on average interest bearing liabilities to 3.27% for the period ended September 30, 2007 or 89 basis points from 2.38% in the same period in 2006.

Rate /Volume Analysis on a tax equivalent basis:

(in thousands)	Nine months Ended		
	September 30,		
	2007 Compared to 2006		
Increase/(Decrease)	Volume	Rate	Total
Interest Income:			
Interest-bearing deposits with other banks	\$ 29	\$ 3	\$ 32
Federal funds sold	(23)	7	(16)
Investment securities available for sale	23	292	315
Loans and leases	5,109	1,023	6,132
Total interest income	5,138	1,325	6,463
Interest expense:			
Savings, NOW and market rate accounts	\$ (83)	\$ 314	\$ 231
Wholesale deposits	2,911	(26)	2,885
Time deposits	577	920	1,497
Borrowed funds	1,102	28	1,130
Total interest expense	4,507	1,236	5,743
Interest differential	\$ 631	\$ 89	\$ 720

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	For the nine months ended September 30,					
	2007			2006		
	Average		Average	Average		Average
	Interest	Rates	Interest	Rates	Interest	Rates
Average	Income/	Earned/	Average	Income/	Earned/	
(dollars in thousands)	Balance	Expense	Paid	Balance	Expense	Paid
Assets:						
Interest-bearing deposits with other banks	\$ 1,419	\$ 56	5.28%	\$ 646	\$ 24	4.97%
Federal funds sold	2,842	112	5.27%	3,647	128	4.69%
Investment securities available for sale:						
Taxable	40,490	1,543	5.10%	39,758	1,225	4.12%
Tax-exempt	4,997	174	4.66%	4,981	177	4.75%
Total investment securities	45,487	1,717	5.05%	44,739	1,402	4.19%
Loans and leases ⁽¹⁾⁽²⁾	723,445	38,297	7.08%	623,796	32,165	6.89%
Total interest earning assets	773,193	40,182	6.95%	672,828	33,719	6.70%
Cash and due from banks	23,116			24,794		
Allowance for loan and lease losses	(8,503)			(7,706)		
Other assets	46,638			35,511		
Total assets	\$ 834,444			\$ 725,427		
Liabilities:						
Savings, NOW and market rate accounts	\$ 278,336	\$ 3,015	1.45%	\$ 294,842	\$ 2,784	1.26%
Time deposits	186,043	6,449	4.63%	166,643	4,952	3.97%
Wholesale deposits	78,811	3,183	5.40%	7,200	298	5.53%
Total interest-bearing deposits	543,190	12,647	3.11%	468,685	8,034	2.29%
Borrowed funds	41,790	1,682	5.38%	13,953	552	5.29%
Total interest-bearing liabilities	584,980	14,329	3.27%	482,638	8,586	2.38%
Noninterest-bearing demand deposits	148,792			149,106		
Other liabilities	15,804			13,608		
Total noninterest-bearing liabilities	164,596			162,714		
Total liabilities	749,576			645,352		
Shareholders' equity	84,868			80,075		
Total liabilities and shareholders' equity	\$ 834,444			\$ 725,427		
Net interest spread			3.68%			4.32%
Effect of noninterest-bearing sources			0.79%			0.67%
Net interest income/ margin on earning assets.		\$ 25,853	4.47%		\$ 25,133	4.99%
Tax equivalent adjustment		\$ 264	0.05%		\$ 259	0.05%

(1)

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

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

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The Corporation's net interest margin decreased 49 basis points to 4.29% in the third quarter of 2007 from 4.78% in the same period last year. The yield on earning assets increased due to an increase in market rates and the impact of higher yielding leases. Conversely, the cost of interest bearing deposits increased more than the yield on earning assets, a result of the competitive deposit gathering environment and the Corporation's reliance on higher cost wholesale funding to support asset growth. The net interest margin and related components for the past five linked quarters are as follows:

Year	Quarter	Interest			Effect of	
		Earning Asset	Bearing Liability	Net Interest Spread	Non-Interest Bearing Sources	Net Interest Margin
2007	3 rd	6.95%	3.44%	3.51%	0.78%	4.29%
2007	2 nd	6.97%	3.27%	3.70%	0.79%	4.49%
2007	1 st	6.93%	3.08%	3.85%	0.80%	4.65%
2006	4 th	6.85%	2.99%	3.86%	0.79%	4.65%
2006	3 rd	6.82%	2.80%	4.02%	0.76%	