BRYN MAWR BANK CORP
Form 10-Q
August 05, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15(d)

of the Securities Exchange Act of 1934

For Quarter ended June 30, 2016

Commission File Number 1-35746

Bryn Mawr Bank Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2434506**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**identification No.)**
801 Lancaster Avenue, Bryn Mawr, Pennsylvania	**19010**
(Address of principal executive offices)	**(Zip Code)**

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

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically 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 checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer", "large 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 in Rule 12b-2 of the Exchange Act) Yes No

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

Classes	Outstanding at August 2, 2016
Common Stock, par value $1	16,833,180

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

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QUARTER ENDED June 30, 2016

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(dollars in thousands)	**June 30, 2016 (unaudited)**	**December 31, 2015**
Assets		
Cash and due from banks	$ 13,710	$ 18,452
Interest bearing deposits with banks	20,481	124,615
Cash and cash equivalents	34,191	143,067
Investment securities available for sale, at fair value (amortized cost of $359,832 and $347,776 as of June 30, 2016 and December 31, 2015 respectively)	365,470	348,966
Investment securities held to maturity, at amortized cost (fair value of $2,916 and $0 as of June 30, 2016 and December 31, 2015, respectively)	2,915	-
Investment securities, trading	3,521	3,950
Loans held for sale	11,882	8,987
Portfolio loans and leases, originated	2,090,069	1,883,869
Portfolio loans and leases, acquired	333,752	385,119
Total portfolio loans and leases	2,423,821	2,268,988
Less: Allowance for originated loan and lease losses	(17,008)	(15,857)
Less: Allowance for acquired loan and lease losses	(28)	-
Total allowance for loans and lease losses	(17,036)	(15,857)
Net portfolio loans and leases	2,406,785	2,253,131
Premises and equipment, net	43,607	45,339
Accrued interest receivable	8,144	7,869
Mortgage servicing rights	4,646	5,142
Bank owned life insurance	38,836	38,371
Federal Home Loan Bank stock	10,618	12,942

Goodwill	104,765	104,765
Intangible assets	22,123	23,903
Other investments	8,722	9,460
Other assets	23,865	25,105
Total assets	$ 3,090,090	$ 3,030,997
Liabilities		
Deposits:		
Non-interest-bearing	$ 689,214	$ 626,684
Interest-bearing	1,720,477	1,626,041
Total deposits	2,409,691	2,252,725
Short-term borrowings	19,119	94,167
Long-term FHLB advances	224,802	254,863
Subordinated notes	29,505	29,479
Accrued interest payable	1,846	1,851
Other liabilities	32,660	32,201
Total liabilities	2,717,623	2,665,286
Shareholders' equity		
Common stock, par value $1; authorized 100,000,000 shares; issued 20,971,551 and 20,931,416 shares as of June 30, 2016 and December 31, 2015, respectively, and outstanding of 16,824,564 and 17,071,523 as of June 30, 2016 and December 31, 2015, respectively	20,972	20,931
Paid-in capital in excess of par value	230,311	228,814
Less: Common stock in treasury at cost - 4,146,987 and 3,859,893 shares as of June 30, 2016 and December 31, 2015, respectively	(66,200)	(58,144)
Accumulated other comprehensive income (loss), net of tax	2,488	(412)
Retained earnings	184,896	174,522
Total shareholders' equity	372,467	365,711
Total liabilities and shareholders' equity	$ 3,090,090	$ 3,030,997

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income - Unaudited

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2016	**2015**	**2016**	**2015**
(dollars in thousands, except per share data)				
Interest income:				
Interest and fees on loans and leases	$27,679	$25,568	$54,375	$50,732
Interest on cash and cash equivalents	42	124	88	239
Interest on investment securities:				
Taxable	1,384	1,161	2,735	2,481
Non-taxable	126	106	254	241
Dividends	55	34	103	54
Total interest income	29,286	26,993	57,555	53,747
Interest expense:				
Interest on deposits	1,402	1,062	2,478	2,090
Interest on short-term borrowings	20	10	37	31
Interest on FHLB advances and other borrowings	867	851	1,775	1,761
Interest on subordinated notes	370	-	736	-
Total interest expense	2,659	1,923	5,026	3,882
Net interest income	26,627	25,070	52,529	49,865
Provision for loan and lease losses	445	850	1,855	1,419
Net interest income after provision for loan and lease losses	26,182	24,220	50,674	48,446
Non-interest income:				
Fees for wealth management services	9,431	9,600	18,263	18,705
Insurance commissions	845	817	2,121	1,838
Service charges on deposits	713	752	1,415	1,464
Loan servicing and other fees	539	597	1,031	1,188
Net gain on sale of loans	896	778	1,656	1,586
Net (loss) gain on sale of investment securities available for sale	(43)	3	(58)	813
Net gain (loss) on sale of other real estate owned ("OREO")	-	75	(76)	90
Dividends on FHLB and FRB stock	263	299	477	914
Other operating income	1,176	1,256	2,199	2,344
Total non-interest income	13,820	14,177	27,028	28,942
Non-interest expenses:				
Salaries and wages	12,197	11,064	23,935	21,934
Employee benefits	2,436	2,618	4,921	5,347
Occupancy and bank premises	2,367	2,808	4,855	5,274
Furniture, fixtures, and equipment	1,895	1,488	3,814	3,000
Advertising	372	479	656	1,036

Amortization of intangible assets	889	955	1,780	1,937
Impairment (recovery) of mortgage servicing rights ("MSR"s)	599	(22)	682	51
Due diligence, merger-related and merger integration expenses	-	1,294	-	3,795
Professional fees	946	827	1,759	1,500
Pennsylvania bank shares tax	640	433	1,278	866
Information technology	875	814	1,923	1,516
Other operating expenses	3,043	3,224	5,707	7,155
Total non-interest expenses	26,259	25,982	51,310	53,411
Income before income taxes	13,743	12,415	26,392	23,977
Income tax expense	4,823	4,296	9,198	8,364
Net income	$8,920	$8,119	$17,194	$15,613
Basic earnings per common share	$0.53	$0.46	$1.02	$0.89
Diluted earnings per common share	$0.52	$0.45	$1.01	$0.87
Dividends declared per share	$0.20	$0.19	$0.40	$0.38
Weighted-average basic shares outstanding	16,812,219	17,713,794	16,830,211	17,630,263
Dilutive shares	212,818	340,869	123,905	349,163
Adjusted weighted-average diluted shares	17,025,037	18,054,663	16,954,116	17,979,426

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income - Unaudited

(dollars in thousands)	**Three Months Ended June 30, 2016**	**2015**	**Six Months Ended June 30, 2016**	**2015**
Net income	$8,920	$8,119	$17,194	$15,613
Other comprehensive income (loss):				
Net change in unrealized gains (losses) on investment securities available for sale:				
Net unrealized gains (losses) arising during the period, net of tax expense (benefit) of $537, $(685), $1,588 and $299, respectively	942	(1,273)	2,853	554
Less: reclassification adjustment for net losses (gains) on sales realized in net income, net of tax (benefit) expense of $(15), $1, $(20) and $285, respectively	28	(2)	38	(528)
Unrealized investment gains (losses), net of tax expense (benefit) of $522, $(686), $1,568 and $14, respectively	970	(1,275)	2,891	26
Net change in fair value of derivative used for cash flow hedge:				
Net unrealized gains (losses) arising during the period, net of tax expense (benefit) of $0, $98, $0 and $(28), respectively	-	183	-	(51)
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 $9, $(137), $5 and $51, respectively	16	(255)	9	95
Total other comprehensive income (loss)	986	(1,347)	2,900	70
Total comprehensive income	$9,906	$6,772	$20,094	$15,683

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows - Unaudited

(dollars in thousands)	**Six Months Ended June 30, 2016**	**2015**
Operating activities:		
Net Income	$17,194	$15,613
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,855	1,419
Depreciation of fixed assets	2,818	2,302
Net amortization of investment premiums and discounts	1,589	1,593
Net loss (gain) on sale of investment securities available for sale	58	(813)
Net gain on sale of loans	(1,656)	(1,586)
Stock based compensation cost	789	737
Amortization and net impairment of mortgage servicing rights	998	315
Net accretion of fair value adjustments	(2,310)	(2,994)
Amortization of intangible assets	1,780	1,937
Impairment of other real estate owned ("OREO")	-	90
Net loss (gain) on sale of OREO	76	(90)
Net increase in cash surrender value of bank owned life insurance ("BOLI")	(465)	(352)
Other, net	(2,651)	3
Loans originated for resale	(63,480)	(75,646)
Proceeds from loans sold	61,739	65,738
Provision for deferred income taxes	225	3,215
Excess tax benefit from stock-based compensation	(20)	(470)
Change in income taxes payable/receivable	1,339	(1,418)
Change in accrued interest receivable	(275)	136
Change in accrued interest payable	(5)	(43)
Net cash provided by operating activities	19,598	9,686
Investing activities:		
Purchases of investment securities available for sale	(75,999)	(90,142)
Purchases of investment securities held to maturity	(2,928)	-
Proceeds from maturity and paydowns of investment securities available for sale	28,358	33,980
Proceeds from maturity and paydowns of investment securities held to maturity	18	-
Proceeds from sale of investment securities available for sale	132	62,827
Net change in FHLB stock	2,324	4,962
Proceeds from calls of investment securities	33,801	55,365
Net change in other investments	738	(4,019)
Net portfolio loan and lease originations	(153,480)	(75,683)
Purchases of premises and equipment	(1,152)	(2,747)
Acquisitions, net of cash acquired	-	16,129
Capitalize costs to OREO	(28)	-
Proceeds from sale of OREO	1,806	928
Net cash (used in) provided by investing activities	(166,410)	1,600

Financing activities:		
Change in deposits	157,137	91,394
Change in short-term borrowings	(75,037)	(105,958)
Dividends paid	(6,732)	(6,719)
Change in FHLB advances and other borrowings	(30,000)	(34,884)
Excess tax benefit from stock-based compensation	20	470
Net purchase of treasury stock for deferred compensation plans	(65)	(71)
Net purchase of treasury stock	(8,034)	(2,677)
Proceeds from issuance of common stock	-	20
Proceeds from exercise of stock options	647	4,410
Net cash provided by (used in) financing activities	37,936	(54,015)
Change in cash and cash equivalents	(108,876)	(42,729)
Cash and cash equivalents at beginning of period	143,067	219,269
Cash and cash equivalents at end of period	$34,191	$176,540
Supplemental cash flow information:		
Cash paid during the year for:		
Income taxes	$7,712	$6,600
Interest	$5,031	$3,630
Non-cash information:		
Available for sale securities purchased, not settled	$-	$851
Change in other comprehensive income	$2,900	$70
Change in deferred tax due to change in comprehensive income	$1,573	$37
Transfer of loans to other real estate owned	$-	$234
Acquisition of noncash assets and liabilities:		
Assets acquired	$-	$727,379
Liabilities assumed	$-	$619,774

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes In Shareholders' Equity - Unaudited

(dollars in thousands, except per share information)

	For the Six Months Ended June 30, 2016						
	Shares of Common Stock Issued	**Common Stock**	**Paid-in Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Total Shareholders' Equity**
Balance December 31, 2015	20,931,416	$ 20,931	$ 228,814	$ (58,144)	$ (412)	$ 174,522	$ 365,711
Net income	-	-	-	-	-	17,194	17,194
Dividends declared, $0.40 per share	-	-	-	-	-	(6,820)	(6,820)
Other comprehensive income, net of tax expense of $1,573	-	-	-	-	2,900	-	2,900
Stock based compensation	-	-	789	-	-	-	789
Excess tax benefit from stock-based compensation	-	-	20	-	-	-	20
Retirement of treasury stock	(4,320)	(4)	(39)	43	-	-	-
Net purchase of treasury stock	-	-	-	(8,099)	-	-	(8,099)
Common stock issued through share-based awards and options exercises	44,455	45	727	-	-	-	772
Balance June 30, 2016	20,971,551	$ 20,972	$ 230,311	$ (66,200)	$ 2,488	$ 184,896	$ 372,467

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 - Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In the opinion of Bryn Mawr Bank Corporation's (the "Corporation") management, all adjustments necessary for a fair presentation of the consolidated financial position and the results of operations for the interim periods presented have been included. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Corporation's Annual Report on Form 10-K for the twelve months ended December 31, 2015 (the "2015 Annual Report").

The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the full year.

Note 2 - 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 computed pursuant to the treasury stock method that could occur if stock options were exercised and converted into common stock, as well as the effect of restricted and performance shares becoming unrestricted 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 anti-dilutive. 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands except per share data)	2016	2015	2016	2015
Numerator:				
Net income available to common shareholders	$8,920	$8,119	$17,194	$15,613
	16,812,219	17,713,794	16,830,211	17,630,263

Denominator for basic earnings per share – weighted average shares outstanding				
Effect of dilutive common shares	212,818	340,869	123,905	349,163
Denominator for diluted earnings per share – adjusted weighted average shares outstanding	17,025,037	18,054,663	16,954,116	17,979,426
Basic earnings per share	$0.53	$0.46	$1.02	$0.89
Diluted earnings per share	$0.52	$0.45	$1.01	$0.87
Antidilutive shares excluded from computation of average dilutive earnings per share	—	—	—	—

Note 3 - Business Combinations

Robert J. McAllister Agency, Inc. (“RJM”)

The acquisition of RJM, an insurance brokerage headquartered in Rosemont, Pennsylvania, was completed on April 1, 2015. The consideration paid by the Corporation was $1.0 million, of which $500 thousand was paid at closing, with five contingent cash payments, not to exceed $100 thousand each, to be payable on each of March 31, 2016, 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. During the three months ended June 30, 2016, the first contingent payment in the amount of $85 thousand was issued. The acquisition enhanced the Corporation’s ability to offer comprehensive insurance solutions to both individual and business clients.

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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

During the three months ended December 31, 2015, a measurement-period 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 Continental Bank Holdings, Inc. (“CBH”) with and into the Corporation, and the merger of Continental Bank with and into the Bank (collectively, the “Merger”) 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 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 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.

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In connection with the 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 Merger	$65,838	$ 2,514	$68,352

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

During the measurement period subsequent to the Merger, adjustments to the fair value of the assets acquired and liabilities assumed were related to circumstances that existed prior to the 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 Merger were finalized.

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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, and salary and wages for redundant staffing involved in the integration of the institutions. The following table details the costs identified and classified as due diligence, merger-related and merger integration costs for the periods indicated:

(dollars in thousands)	**Three Months Ended June 30, 2016**	**2015**	**Six Months Ended June 30, 2016**	**2015**
Employee benefits	$—	$59	$—	$152
Furniture, fixtures and equipment	—	9	—	29
Information technology	—	218	—	457
Professional fees	—	572	—	1,766
Salaries and wages	—	264	—	744
Other	—	172	—	647
Total due diligence and merger-related expenses	$—	$1,294	$—	$3,795

Note 4 - Investment Securities

The amortized cost and fair value of investment securities *available for sale* are as follows:

As of June 30, 2016

(dollars in thousands)	**Amortized Cost**	**Gross Unrealized**	**Gross Unrealized**	**Fair Value**

		Gains	Losses	
U.S. Treasury securities	$ 101	$ 1	$ —	$ 102
Obligations of the U.S. government and agencies	84,952	1,183	(1)	86,134
Obligations of state and political subdivisions	39,331	255	(7)	39,579
Mortgage-backed securities	182,397	3,957	—	186,354
Collateralized mortgage obligations	36,205	497	—	36,702
Other investments	16,846	71	(318)	16,599
Total	$ 359,832	$ 5,964	$ (326)	$ 365,470

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

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The following tables detail the amount of investment securities *available for sale* that were in an unrealized loss position as of the dates indicated:

As of June 30, 2016

(dollars in thousands)	**Less than 12 Months**		**12 Months or Longer**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Obligations of the U.S. government and agencies	$2,999	$ (1)	$—	$ —	$2,999	$ (1)
Obligations of state and political subdivisions	4,115	(4)	2,537	(3)	6,652	(7)
Other investments	1,077	(136)	11,774	(182)	12,851	(318)
Total	$8,191	$ (141)	$14,311	$ (185)	$22,502	$ (326)

As of December 31, 2015

(dollars in thousands)	**Less than 12 Months**		**12 Months or Longer**		**Total**	
	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 available for sale that are in an unrealized loss position in order to determine if the decline in fair value is other than temporary. The available for sale 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 available for sale investment portfolio are rated as investment grade. 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. The Corporation 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.

As of June 30, 2016 and December 31, 2015, securities having fair values of $119.7 million and $128.9 million, respectively, were specifically pledged as collateral for public funds, trust deposits, the Federal Reserve Bank of Philadelphia discount window program, Federal Home Loan Bank of Pittsburgh (“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.

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The amortized cost and fair value of investment securities *available for sale* as of June 30, 2016 and December 31, 2015, by contractual maturity, are shown below:

(dollars in thousands)	June 30, 2016 Amortized Cost	June 30, 2016 Fair Value	December 31, 2015 Amortized Cost	December 31, 2015 Fair Value
Investment securities:				
Due in one year or less	$11,915	$11,924	$9,570	$9,574
Due after one year through five years	49,916	50,355	61,368	61,467
Due after five years through ten years	44,597	44,872	53,193	53,070
Due after ten years	19,406	20,114	20,904	21,141
Subtotal	125,834	127,265	145,035	145,252
Mortgage-related securities[1]	218,602	223,056	187,178	188,488
Mutual funds with no stated maturity	15,396	15,149	15,563	15,226
Total	$359,832	$365,470	$347,776	$348,966

[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.*

The amortized cost and fair value of investment securities *held to maturity* as of June 30, 2016 are as follows:

As of June 30, 2016

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 2,915	$ 2	$ (1)	$2,916
Total	$ 2,915	$ 2	$ (1)	$2,916

The following tables detail the amount of investment securities *held to maturity* that were in an unrealized loss position as of June 30, 2016:

As of June 30, 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
Mortgage-backed securities	$1,438	$ (1)	$ —	$ —	$1,438	$ (1)
Total	$1,438	$ (1)	$ —	$ —	$1,438	$ (1)

The amortized cost and fair value of investment securities *held to maturity* as of June 30, 2016, by contractual maturity, are shown below:

	June 30, 2016	
(dollars in thousands)	Amortized Cost	Fair Value
Mortgage-related securities[1]	2,915	2,916
Total	$2,915	$2,916

[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*.

As of June 30, 2016 and December 31, 2015, the Corporation's investment securities held in *trading* accounts were comprised of a deferred compensation trust which is invested in marketable securities whose diversification is at the discretion of the deferred compensation plan participants.

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Note 5 - Loans and Leases

The loan and lease portfolio consists of loans and leases originated by the Corporation, as well as loans acquired in mergers and acquisitions. These mergers and acquisitions include the January 2015 acquisition of CBH, the November 2012 transaction with First Bank of Delaware (“FBD”) and the July 2010 acquisition of First Keystone Financial, Inc. (“FKF”). 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:

	June 30, 2016	December 31, 2015
Loans held for sale	$11,882	$8,987
Real estate loans:		
Commercial mortgage	$1,055,934	$964,259
Home equity lines and loans	202,989	209,473
Residential mortgage	414,863	406,404
Construction	133,313	90,421
Total real estate loans	1,807,099	1,670,557
Commercial and industrial	538,684	524,515
Consumer	21,561	22,129
Leases	56,477	51,787
Total portfolio loans and leases	2,423,821	2,268,988
Total loans and leases	$2,435,703	$2,277,975
Loans with fixed rates	$1,160,008	$1,103,622
Loans with adjustable or floating rates	1,275,695	1,174,353
Total loans and leases	$2,435,703	$2,277,975
Net deferred loan origination fees included in the above loan table	$(165)	$(70)

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

	June 30, 2016	December 31, 2015
Loans held for sale	$11,882	$8,987
Real estate loans:		
Commercial mortgage	$882,513	$772,571
Home equity lines and loans	168,796	171,189
Residential mortgage	334,620	316,487
Construction	132,953	87,155
Total real estate loans	1,518,882	1,347,402
Commercial and industrial	493,293	462,746
Consumer	21,417	21,934
Leases	56,477	51,787
Total portfolio loans and leases	2,090,069	1,883,869
Total loans and leases	$2,101,951	$1,892,856
Loans with fixed rates	$1,005,985	$932,575
Loans with adjustable or floating rates	1,095,966	960,281
Total originated loans and leases	$2,101,951	$1,892,856
Net deferred loan origination fees included in the above loan table	$(165)	$(70)

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

	June 30, 2016	December 31, 2015
Real estate loans:		
Commercial mortgage	$173,421	$191,688
Home equity lines and loans	34,193	38,284
Residential mortgage	80,243	89,917
Construction	360	3,266
Total real estate loans	288,217	323,155
Commercial and industrial	45,391	61,769
Consumer	144	195
Total portfolio loans and leases	333,752	385,119
Total loans and leases	$333,752	$385,119
Loans with fixed rates	$154,023	$171,047
Loans with adjustable or floating rates	179,729	214,072
Total acquired loans and leases	$333,752	$385,119

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

(dollars in thousands)	June 30, 2016	December 31, 2015
Minimum lease payments receivable	$63,366	$ 58,422
Unearned lease income	(9,188)	(8,919)
Initial direct costs and deferred fees	2,299	2,284
Total	$56,477	$ 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)	**June 30, 2016**	**December 31, 2015**
Non-accrual loans and leases:		
Commercial mortgage	$139	$ 829
Home equity lines and loans	3,011	2,027
Residential mortgage	2,909	3,212
Construction	—	34
Commercial and industrial	3,457	4,133
Consumer	4	—
Leases	97	9
Total	$9,617	$ 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 $143 thousand and $661 thousand of purchased credit-impaired loans as of June 30, 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)	**June 30, 2016**	**December 31, 2015**
Non-accrual originated loans and leases:		
Commercial mortgage	$83	$ 279
Home equity lines and loans	2,810	1,788
Residential mortgage	1,839	1,964
Construction	—	34
Commercial and industrial	2,480	3,044
Consumer	4	
Leases	97	9
Total	$7,313	$ 7,118

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

(dollars in thousands)	**June 30, 2016**	**December 31, 2015**
Non-accrual acquired loans and leases:		
Commercial mortgage	$56	$ 550
Home equity lines and loans	201	239
Residential mortgage	1,070	1,248
Commercial and industrial	977	1,089
Total	$2,304	$ 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 $143 thousand and $661 thousand of purchased credit-impaired loans as of June 30, 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)	**June 30, 2016**	**December 31, 2015**
Outstanding principal balance	$21,694	$ 24,879
Carrying amount[1]	$14,885	$ 16,846

(1) *Includes $181 thousand and $699 thousand of purchased credit-impaired loans as of June 30, 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 $143 thousand and $661 thousand of purchased credit-impaired loans as of June 30, 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 six months ended June 30, 2016:

(dollars in thousands)	**Accretable Discount**
Balance, December 31, 2015	$ 6,115
Accretion	(1,234)
Reclassifications from nonaccretable difference	7
Additions/adjustments	68
Disposals	(721)
Balance, June 30, 2016	$ 4,235

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:

	Accruing Loans and Leases							
(dollars in thousands) **As of June 30, 2016**	**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	$1,889	$—	$ —	$1,889	$1,053,906	$1,055,795	$139	$1,055,934
Home equity lines and loans	47	340	—	387	199,591	199,978	3,011	202,989
Residential mortgage	315	48	—	363	411,591	411,954	2,909	414,863
Construction	—	—	—	—	133,313	133,313	—	133,313
Commercial and industrial	—	371	—	371	534,856	535,227	3,457	538,684
Consumer	48	—	—	48	21,509	21,557	4	21,561
Leases	427	77	—	504	55,876	56,380	97	56,477
	$2,726	$836	$ —	$3,562	$2,410,642	$2,414,204	$9,617	$2,423,821

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(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

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

(dollars in thousands) As of June 30, 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	$1,889	$—	$ —	$1,889	$880,541	$882,430	$ 83	$882,513
Home equity lines and loans	47	250	—	297	165,689	165,986	2,810	168,796
Residential mortgage	69	—	—	69	332,712	332,781	1,839	334,620
Construction	—	—	—	—	132,953	132,953	—	132,953
Commercial and industrial	—	—	—	—	490,813	490,813	2,480	493,293
Consumer	48	—	—	48	21,365	21,413	4	21,417
Leases	427	77	—	504	55,876	56,380	97	56,477
	$2,480	$327	$ —	$2,807	$2,079,949	$2,082,756	$ 7,313	$2,090,069

Accruing Loans and Leases

(dollars in thousands) As of December 31, 2015	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

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

	Accruing Loans and Leases							
(dollars in thousands) As of June 30, 2016	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	$—	$—	$ —	$—	$173,365	$173,365	$ 56	$173,421
Home equity lines and loans	—	90	—	90	33,902	33,992	201	34,193
Residential mortgage	246	48	—	294	78,879	79,173	1,070	80,243
Construction	—	—	—	—	360	360	—	360
Commercial and industrial	—	371	—	371	44,043	44,414	977	45,391
Consumer	—	—	—	—	144	144	—	144
	$246	$509	$ —	$755	$330,693	$331,448	$ 2,304	$333,752

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(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

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

The following table details the roll-forward of the Allowance for the three and six months ended June 30, 2016:

(dollars in thousands)	**Commercial Mortgage**	**Home Equity Lines and Loans**	**Residential Mortgage**	**Construction**	**Commercial and Industrial**	**Consumer**	**Leases**	**Unallocated**	**Total**
Balance, March 31, 2016	$ 5,856	$1,126	$ 1,868	$ 1,902	$ 5,445	$ 120	$528	$ —	$16,845
Charge-offs	—	(11)	(267)	—	(4)	(32)	(111)	—	(425)
Recoveries	3	—	5	62	48	2	51	—	171
Provision for loan and lease losses	162	70	343	180	(444)	37	97	—	445
Balance, June 30, 2016	$ 6,021	$1,185	$ 1,949	$ 2,144	$ 5,045	$ 127	$565	$ —	$17,036

(dollars in thousands)	**Commercial Mortgage**	**Home Equity**	**Residential Mortgage**	**Construction**	**Commercial and**	**Consumer**	**Leases**	**Unallocated**	**Total**

		Lines and Loans			**Industrial**				
Balance, December 31, 2015	$ 5,199	$ 1,307	$ 1,740	$ 1,324	$ 5,609	$ 142	$ 518	$ 18	$ 15,857
Charge-offs	(110)	(85)	(271)	—	(33)	(66)	(411)		(976)
Recoveries	6	4	44	63	51	16	116		300
Provision for loan and lease losses	926	(41)	436	757	(582)	35	342	(18)	1,855
Balance June 30, 2016	$ 6,021	$ 1,185	$ 1,949	$ 2,144	$ 5,045	$ 127	$ 565	$ —	$ 17,036

The following tables detail the roll-forward of the Allowance for the three and six months ended June 30, 2015:

(dollars in thousands)	**Commercial Mortgage**	**Home Equity Lines and Loans**	**Residential Mortgage**	**Construction**	**Commercial and Industrial**	**Consumer**	**Leases**	**Unallocated**	**Total**
Balance, March 31, 2015	$ 3,776	$ 2,051	$ 1,866	$ 1,373	$ 3,985	$ 257	$ 484	$ 504	$ 14,296
Charge-offs	(50)	(75)	(47)	—	—	(40)	(105)	—	(317)
Recoveries	2	64	4	1	10	5	44	—	130
Provision for loan and lease losses	(69)	(71)	(15)	88	891	102	76	(152)	850
Balance, June 30, 2015	$ 3,659	$ 1,969	$ 1,808	$ 1,462	$ 4,886	$ 324	$ 499	$ 352	$ 14,959

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(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)	(204)	(515)	—	(271)	(75)	(125)	—	(1,240)
Recoveries	23	69	8	2	26	8	58	—	194
Provision for loan and lease losses	(262)	187	579	93	598	153	98	(27)	1,419
Balance June 30, 2015	$ 3,659	$ 1,969	$ 1,808	$ 1,462	$ 4,886	$ 324	$ 499	$ 352	$ 14,959

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 June 30, 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 June 30, 2016									
Allowance on loans and leases:									
Individually evaluated for impairment	$ —	$ —	$ 74	$ —	$ 519	$ 7	$ —	$ —	$ 600
Collectively evaluated for impairment	6,021	1,185	1,875	2,144	4,526	120	565	—	16,436
Purchased credit-impaired[1]	—	—	—	—	—	—	—	—	—
Total	$ 6,021	$ 1,185	$ 1,949	$ 2,144	$ 5,045	$ 127	$ 565	$ —	$ 17,036
As of December 31, 2015									
Allowance on loans and leases:									
Individually evaluated for impairment	$ —	$ 115	$ 54	$ —	$ 519	$ 5	$ —	$ —	$ 693
	5,199	1,192	1,686	1,324	5,090	137	518	18	15,164

Collectively evaluated for impairment									
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.*

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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 June 30, 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 June 30, 2016								
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 139	$ 3,082	$ 7,466	$ —	$ 3,576	$ 34	$—	$ 14,297
Collectively evaluated for impairment	1,045,211	199,789	407,388	133,313	530,934	21,527	56,477	2,394,639
Purchased credit-impaired(1)	10,584	118	9	—	4,174	—	—	14,885
Total	$ 1,055,934	$ 202,989	$ 414,863	$ 133,313	$ 538,684	$ 21,561	$56,477	$2,423,821
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 June 30, 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 June 30, 2016									
Allowance on loans and leases:									
Individually evaluated for impairment	$ —	$—	$ 46	$ —	$ 519	$ 7	$—	$ —	$572
Collectively evaluated for impairment	6,021	1,185	1,875	2,144	4,526	120	565	—	16,436
Total	$ 6,021	$1,185	$ 1,921	$ 2,144	$ 5,045	$ 127	$565	$ —	$17,008
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

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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 June 30, 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 June 30, 2016								
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 83	$ 2,971	$ 4,248	$ —	$ 2,652	$ 34	$ —	$ 9,988
Collectively evaluated for impairment	882,430	165,825	330,372	132,953	490,641	21,383	56,477	2,080,081
Total	$ 882,513	$ 168,796	$ 334,620	$ 132,953	$ 493,293	$ 21,417	$ 56,477	$ 2,090,069
As of December 31, 2015								
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 279	$ 1,832	$ 4,394	$ 33	$ 3,229	$ 30	$ —	$ 9,797
Collectively evaluated for impairment	772,292	169,357	312,093	87,122	459,517	21,904	51,787	1,874,072
Total	$ 772,571	$ 171,189	$ 316,487	$ 87,155	$ 462,746	$ 21,934	$ 51,787	$ 1,883,869

The following table details the allocation of the Allowance for *acquired* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 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 June 30, 2016									
Allowance on loans and leases:									
Individually evaluated for impairment	$ —	$ —	$ 28	$ —	$ —	$ —	$ —	$ —	$ 28
Collectively evaluated for impairment	—	—	—	—	—	—	—	—	—
Purchased credit-impaired(1)	—	—	—	—	—	—	—	—	—
Total	$ —	$ —	$ 28	$ —	$ —	$ —	$ —	$ —	$ 28
As of December 31, 2015									
Allowance on loans and leases:									
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	—	—	—	—	—	—	—	—	—
Purchased credit-impaired(1)	—	—	—	—	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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

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The following table details the carrying value for *acquired* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 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 June 30, 2016								
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 56	$ 111	$ 3,218	$ —	$ 924	$ —	$ —	$ 4,309
Collectively evaluated for impairment	162,781	33,964	77,016	360	40,293	144	—	314,558
Purchased credit-impaired[(1)]	10,584	118	9	—	4,174	—	—	14,885
Total	$ 173,421	$ 34,193	$ 80,243	$ 360	$ 45,391	$ 144	$ —	$ 333,752
As of December 31, 2015								
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 70	$ 148	$ 3,360	$ —	$ 1,011	$ —	$ —	$ 4,589
Collectively evaluated for impairment	180,156	38,021	86,542	2,503	56,267	195	—	363,684
Purchased credit-impaired[(1)]	11,462	115	15	763	4,491	—	—	16,846
Total	$ 191,688	$ 38,284	$ 89,917	$ 3,266	$ 61,769	$ 195	$ —	$ 385,119

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

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As part of the process of determining 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 staff as well as external loan reviewers. The result of these reviews is 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 a well-defined weakness or weaknesses that jeopardize the liquidation 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.

In addition, for the remaining segments of the loan and lease portfolio, which include residential mortgage, home equity lines and loans, consumer, and leases, the credit quality indicator used to determine this component of the Allowance is based on performance status.

The following tables detail the carrying value of *all* portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of June 30, 2016 and December 31, 2015:

	Credit Risk Profile by Internally Assigned Grade							
(dollars in thousands)	**Commercial Mortgage**		**Construction**		**Commercial and Industrial**		**Total**	
	June 30, 2016	**December 31, 2015**	**June 30, 2016**	**December 31, 2015**	**June 30, 2016**	**December 31, 2015**	**June 30, 2016**	**December 31, 2015**
Pass	$1,045,010	$946,887	$130,163	$88,653	$526,570	$510,040	$1,701,743	$1,545,580
Special Mention	1,257	7,029	—	—	2,483	1,123	3,740	8,152

Substandard	9,667	10,343	3,150	1,768	8,356	13,352	21,173	25,463
Doubtful	—	—	—	—	1,275	—	1,275	—
Total	$1,055,934	$964,259	$133,313	$90,421	$538,684	$524,515	$1,727,931	$1,579,195

Credit Risk Profile by Payment Activity

(dollars in thousands)	**Residential Mortgage**		**Home Equity Lines and Loans**		**Consumer**		**Leases**		**Total**	
	June 30, 2016	**December 31, 2015**	**June 30, 2016**	**December 31, 2015**	**June 30, 2016**	**December 31, 2015**	**June 30, 2016**	**December 31, 2015**	**June 30, 2016**	**December 31, 2015**
Performing	$411,954	$403,192	$199,978	$207,446	$21,557	$22,129	$56,380	$51,778	$689,869	$684,545
Non-performing	2,909	3,212	3,011	2,027	4	—	97	9	6,021	5,248
Total	$414,863	$406,404	$202,989	$209,473	$21,561	$22,129	$56,477	$51,787	$695,890	$689,793

The following tables detail the carrying value of *originated* portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of June 30, 2016 and December 31, 2015:

Credit Risk Profile by Internally Assigned Grade

(dollars in thousands)	**Commercial Mortgage**		**Construction**		**Commercial and Industrial**		**Total**	
	June 30, 2016	**December 31, 2015**	**June 30, 2016**	**December 31, 2015**	**June 30, 2016**	**December 31, 2015**	**June 30, 2016**	**December 31, 2015**
Pass	$873,873	$758,240	$129,804	$86,065	$488,396	$454,454	$1,492,073	$1,298,759
Special Mention	1,256	7,029	—	—	1,264	1,015	2,520	8,044
Substandard	7,384	7,302	3,149	1,090	3,633	7,277	14,166	15,669
Total	$882,513	$772,571	$132,953	$87,155	$493,293	$462,746	$1,508,759	$1,322,472

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Credit Risk Profile by Payment Activity

(dollars in thousands)	Residential Mortgage		Home Equity Lines and Loans		Consumer		Leases		Total	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Performing	$332,781	$314,523	$165,986	$169,401	$21,413	$21,934	$56,380	$51,778	$576,560	$557,636
Non-performing	1,839	1,964	2,810	1,788	4	—	97	9	4,750	3,761
Total	$334,620	$316,487	$168,796	$171,189	$21,417	$21,934	$56,477	$51,787	$581,310	$561,397

The following tables detail the carrying value of *acquired* portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of June 30, 2016 and December 31, 2015:

Credit Risk Profile by Internally Assigned Grade

(dollars in thousands)	Commercial Mortgage		Construction		Commercial and Industrial		Total	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Pass	$171,137	$188,647	$359	$ 2,588	$38,174	$ 55,586	$209,670	$246,821
Special Mention	1	—	—	—	1,219	108	1,220	108
Substandard	2,283	3,041	1	678	4,723	6,075	7,007	9,794
Doubtful	—	—	—	—	1,275	—	1,275	—
Total	$173,421	$191,688	$360	$ 3,266	$45,391	$ 61,769	$219,172	$256,723

Credit Risk Profile by Payment Activity

(dollars in thousands)	Residential Mortgage	Home Equity Lines and Loans	Consumer	Total
				June 30,

	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	2016	December 31, 2015
Performing	$79,173	$ 88,669	$33,992	$ 38,045	$144	$ 195	$113,309	$126,909
Non-performing	1,070	1,248	201	239	—	—	1,271	1,487
Total	$80,243	$ 89,917	$34,193	$ 38,284	$144	$ 195	$114,580	$128,396

G. Troubled Debt Restructurings ("TDRs")

The restructuring of a loan is considered a "troubled debt restructuring" if both of the following conditions are met: (i) the borrower is experiencing financial difficulties, and (ii) the creditor has granted a concession. The most common concessions granted include one or more modifications to the terms of the debt, such as (a) a reduction in the interest rate for the remaining life of the debt, (b) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (c) a temporary period of interest-only payments, (d) a reduction in the contractual payment amount for either a short period or remaining term of the loan, and (e) for leases, a reduced lease payment. A less common concession granted is the forgiveness of a portion of the principal.

The determination of whether a borrower is experiencing financial difficulties takes into account not only the current financial condition of the borrower, but also the potential financial condition of the borrower, were a concession not granted. Similarly, the determination of whether a concession has been granted is very subjective in nature. For example, simply extending the term of a loan at its original interest rate or even at a higher interest rate could be interpreted as a concession unless the borrower could readily obtain similar credit terms from a different lender.

The following table presents the balance of TDRs as of the indicated dates:

(dollars in thousands)	June 30, 2016	December 31, 2015

TDRs included in nonperforming loans and leases	$1,779	$ 1,935
TDRs in compliance with modified terms	4,984	4,880
Total TDRs	$6,763	$ 6,815

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The following tables present information regarding loan and lease modifications categorized as TDRs for the three and six months ended June 30, 2016:

	For the Three Months Ended June 30, 2016		
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Home equity loans and lines	2	$ 169	$ 169
Residential mortgage	1	27	27
Total	3	$ 196	$ 196

	For the Six Months Ended June 30, 2016		
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Home equity loans and lines	3	$ 251	$ 204
Residential mortgage	1	27	27
Leases	2	67	67
Total	6	$ 345	$ 298

The following tables present information regarding the types of loan and lease modifications made for the three and six months ended June 30, 2016:

	Number of Contracts for the Three Months Ended June 30, 2016					
	Loan Term Extension	Interest Rate	Interest Rate Change	Contractual Payment	Forgiveness of Interest	Forgiveness of Principal

	Change		Change and Term Extension	and/or Interest-Only Period	Reduction (Leases only)		
Home equity loans and lines	—	—	—	2	—	—	—
Residential mortgage	—	—	1	—	—	—	—
Total	—	—	1	2	—	—	—

	Number of Contracts for the Six Months Ended June 30, 2016						
	Interest Rate Change	Loan Term Extension	Interest Rate Change and Term Extension	Interest Rate Change and/or Interest-Only Period	Contractual Payment Reduction (Leases only)	Forgiveness of Interest	Forgiveness of Principal
Home equity loans and lines	—	—	—	2	—	—	1
Residential mortgage	—	—	1	—	—	—	—
Leases	—	—	—	—	2	—	—
Total	—	—	1	2	2	—	1

During the three and six months ended June 30, 2016, there were no defaults of loans or leases that had been previously modified to troubled debt restructurings.

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H. Impaired Loans

The following tables detail the recorded investment and principal balance of impaired loans by portfolio segment, their related Allowance and interest income recognized as of the dates or for the periods indicated:

(dollars in thousands)	**Recorded Investment**[2]	**Principal Balance**	**Related Allowance**	**Average Principal Balance**	**Interest Income Recognized**	**Cash-Basis Interest Income Recognized**
As of or for the three months ended June 30, 2016						
Impaired loans with related Allowance:						
Residential mortgage	$ 626	$ 626	$ 74	$ 640	$ 7	$ —
Commercial and industrial	1,874	1,874	519	1,941	1	—
Consumer	32	32	7	32	—	—
Total	$ 2,532	$ 2,532	$ 600	$ 2,613	$ 8	$ —
Impaired loans without related Allowance[1] [3]:						
Commercial mortgage	$ 139	$ 139	$ —	$ 142	$ 1	$ —
Home equity lines and loans	3,082	3,400	—	3,568	2	—
Residential mortgage	6,840	7,169	—	8,041	52	—
Commercial and industrial	1,702	2,309	—	2,636	1	—
Consumer	2	2	—	2	—	—
Total	$ 11,765	$ 13,019	$ —	$ 14,389	$ 56	$ —
Grand total	$ 14,297	$ 15,551	$ 600	$ 17,002	$ 64	$ —

(1) *The table above does not include the recorded investment of $161 thousand of impaired leases without a related Allowance.*
(2) *Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal.*
(3) *This table excludes all purchased credit-impaired loans, which are discussed in Note 5D, above.*

(dollars in thousands)	**Recorded Investment**[2]	**Principal Balance**	**Related Allowance**	**Average Principal Balance**	**Interest Income Recognized**	**Cash-Basis Interest Income Recognized**
As of or for the six months ended June 30, 2016						
Impaired loans with related Allowance:						

Residential mortgage	$ 626	$ 626	$ 74	$ 641	$ 14	$ —
Commercial and industrial	1,874	1,874	519	1,965	3	—
Consumer	32	32	7	32	1	—
Total	$ 2,532	$ 2,532	$ 600	$ 2,638	$ 18	$ —
Impaired loans without related Allowance[(1) (3)]:						
Commercial mortgage	$ 139	$ 139	$ —	$ 143	$ 1	$ —
Home equity lines and loans	3,082	3,400	—	3,578	19	—
Residential mortgage	6,840	7,169	—	7,723	106	—
Commercial and industrial	1,702	2,309	—	3,079	2	—
Consumer	2	2	—	2	—	—
Total	$ 11,765	$ 13,019	$ —	$ 14,525	$ 128	$ —
Grand total	$ 14,297	$ 15,551	$ 600	$ 17,163	$ 146	$ —

(1) *The table above does not include the recorded investment of $161 thousand of impaired leases without a related Allowance.*

(2) *Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal.*

(3) *This table excludes all purchased credit-impaired loans, which are discussed in Note 5D, above.*

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(dollars in thousands)	**Recorded Investment**[(2)]	**Principal Balance**	**Related Allowance**	**Average Principal Balance**	**Interest Income Recognized**	**Cash-Basis Interest Income Recognized**
As of or for the three months ended June 30, 2015						
Impaired loans with related Allowance:						
Residential mortgage	$ 710	$ 724	$ 76	$ 726	$ 8	$ —
Commercial and industrial	951	950	103	962	13	—
Consumer	31	31	5	31	—	—
Total	$ 1,692	$ 1,705	$ 184	$ 1,719	$ 21	$ —
Impaired loans without related Allowance[(1)] [(3)]:						
Commercial mortgage	$ 92	$ 92	$ —	$ 99	$ —	$ —
Home equity lines and loans	1,719	1,819	—	1,948	1	—
Residential mortgage	7,502	8,535	—	8,812	31	—
Construction	139	910	—	930	—	—
Commercial and industrial	1,360	1,381	—	1,425	1	—
Total	$ 10,812	$ 12,737	$ —	$ 13,214	$ 33	$ —
Grand total	$ 12,504	$ 14,442	$ 184	$ 14,933	$ 54	$ —

(1) *The table above does not include the recorded investment of $70 thousand of impaired leases without a related Allowance.*

(2) *Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal.*

(3) *This table excludes all purchased credit-impaired loans, which are discussed in Note 5D, above.*

(dollars in thousands)	**Recorded Investment**[(2)]	**Principal Balance**	**Related Allowance**	**Average Principal Balance**	**Interest Income Recognized**	**Cash-Basis Interest Income Recognized**
As of or for the six months ended June 30, 2015						
Impaired loans with related Allowance:						
Residential mortgage	$ 710	$ 724	$ 76	$ 727	$ 17	$ —
Commercial and industrial	951	950	103	972	26	—
Consumer	31	31	5	31	1	—
Total	$ 1,692	$ 1,705	$ 184	$ 1,730	$ 44	$ —
Impaired loans without related Allowance[(1)] [(3)]:						

Commercial mortgage	$ 92	$ 92	$ —	$ 100	$ —	$ —
Home equity lines and loans	1,719	1,819	—	1,960	11	—
Residential mortgage	7,502	8,535	—	8,832	66	—
Construction	139	910	—	950	—	—
Commercial and industrial	1,360	1,381	—	1,429	3	—
Total	$ 10,812	$ 12,737	$ —	$ 13,271	$ 80	$ —
Grand total	$ 12,504	$ 14,442	$ 184	$ 15,001	$ 124	$ —

(1) *The table above does not include the recorded investment of $70 thousand of impaired leases without a related Allowance.*

(2) *Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal.*

(3) *This table excludes all purchased credit-impaired loans, which are discussed in Note 5D, above.*

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(dollars in thousands)	Recorded Investment[2]	Principal Balance	Related Allowance
As of December 31, 2015			
Impaired loans with related allowance:			
Home equity lines and loans	$ 115	$ 115	$ 115
Residential mortgage	515	527	54
Commercial and industrial	2,011	2,002	519
Consumer	30	30	5
Total	$ 2,671	$ 2,674	$ 693
Impaired loans[1][3] without related allowance:			
Commercial mortgage	$ 349	$ 358	$ —
Home equity lines and loans	1,865	2,447	—
Residential mortgage	7,239	8,166	—
Construction	33	996	—
Commercial and industrial	2,229	3,089	—
Total	$ 11,715	$ 15,056	$ —
Grand total	$ 14,386	$ 17,730	$ 693

(1) *The table above does not include the recorded investment of $77 thousand of impaired leases without a related Allowance.*

(2) *Recorded investment equals principal balance less partial charge-offs and interest payments on non-performing loans that have been applied to principal.*

(3) *This table excludes all purchased credit-impaired loans, which are discussed in Note 5D, above.*

I. Loan Mark

Loans acquired in mergers and acquisitions are recorded at fair value as of the date of the transaction. This adjustment to the acquired principal amount is referred to as the “Loan Mark”. With the exception of purchased credit impaired loans, whose Loan Mark is accounted for under ASC 310-30, the Loan Mark is amortized or accreted as an adjustment to yield over the lives of the loans. The following tables detail, for *acquired loans*, the outstanding principal, remaining loan mark, and recorded investment, by portfolio segment, as of the dates indicated:

(dollars in thousands)	As of June 30, 2016		
	Outstanding Principal	Remaining Loan Mark	Recorded Investment
Commercial mortgage	$178,346	$(4,925)	$173,421
Home equity lines and loans	36,044	(1,851)	34,193
Residential mortgage	83,148	(2,905)	80,243
Construction	360	—	360
Commercial and industrial	50,254	(4,863)	45,391
Consumer	167	(23)	144
Total	$348,319	$(14,567)	$333,752

(dollars in thousands)	As of December 31, 2015		
	Outstanding Principal	Remaining Loan Mark	Recorded Investment
Commercial mortgage	$197,532	$(5,844)	$191,688
Home equity lines and loans	40,258	(1,974)	38,284
Residential mortgage	93,230	(3,313)	89,917
Construction	3,807	(541)	3,266
Commercial and industrial	67,181	(5,412)	61,769
Consumer	220	(25)	195
Total	$402,228	$(17,109)	$385,119

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Note 6 - Deposits

The following table details the components of deposits:

(dollars in thousands)	June 30, 2016	December 31, 2015
Interest-bearing checking accounts	$333,425	$338,861
Money market accounts	718,144	749,726
Savings accounts	217,877	187,299
Wholesale non-maturity deposits	58,690	67,717
Wholesale time deposits	113,274	53,185
Time deposits	279,067	229,253
Total interest-bearing deposits	1,720,477	1,626,041
Non-interest-bearing deposits	689,214	626,684
Total deposits	$2,409,691	$2,252,725

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Note 7 - Borrowings

A. Short-term borrowings

The Corporation's short-term borrowings (original maturity of one year or less), which consist of a revolving line of credit with a correspondent bank, funds obtained from overnight repurchase agreements with commercial customers, FHLB advances with original maturities of one year or less and overnight fed funds, are detailed below.

A summary of short-term borrowings is as follows:

(dollars in thousands)	**June 30, 2016**	**December 31, 2015**
Repurchase agreements* – commercial customers	$19,119	$ 29,156
Repurchase agreement** – correspondent bank	—	5,011
Short-term FHLB advances	—	30,000
Overnight federal funds	—	30,000
Total short-term borrowings	$19,119	$ 94,167

** overnight repurchase agreements with no expiration date*

*** overnight repurchase agreement, expired January 2016*

The following table sets forth information concerning short-term borrowings:

(dollars in thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2016	**2015**	**2016**	**2015**
Balance at period-end	$19,119	$26,406	$19,119	$26,406
Maximum amount outstanding at any month-end	54,715	36,911	54,715	38,546

Average balance outstanding during the period	32,328	34,980	33,243	45,038
Weighted-average interest rate:				
As of period-end	0.10 %	0.10 %	0.10 %	0.10 %
Paid during the period	0.25 %	0.11 %	0.22 %	0.14 %

B. Long-term FHLB Advances and Other Borrowings

The Corporation's long-term FHLB advances and other borrowings consist of advances from the FHLB with original maturities of greater than one year and an adjustable-rate commercial loan from a correspondent bank.

The following table presents the remaining periods until maturity of the long-term FHLB advances and other borrowings:

(dollars in thousands)	**June 30, 2016**	**December 31, 2015**
Within one year	$60,000	$75,000
Over one year through five years	164,802	179,863
Total	$224,802	$254,863

The following table presents rate and maturity information on long-term FHLB advances and other borrowings:

(dollars in thousands)	**Maturity Range[1]**		**Weighted Average Rate[1]**	**Coupon Rate[1]**		**Balance**	
Description	**From**	**To**		**From**	**To**	**June 30, 2016**	**December 31, 2015**
Bullet maturity – fixed rate	08/23/2016	12/19/2020	1.41 %	0.80%	2.13%	$188,612	$198,612
Bullet maturity – variable rate	11/28/2017	11/28/2017	0.56 %	0.56%	0.90%	15,000	35,000
Convertible-fixed[2]	01/03/2018	08/20/2018	2.94 %	2.58%	3.50%	21,190	21,251
Total						$224,802	$254,863

[1]*Maturity range, weighted average rate and coupon rate range refers to June 30, 2016 balances*
[2]*FHLB advances whereby the FHLB has the option, at predetermined times, to convert the fixed interest rate to an adjustable interest rate indexed to the London Interbank Offered Rate ("LIBOR"). The Corporation has the option to prepay these advances, without penalty, if the FHLB elects to convert the interest rate to an adjustable rate. As of June 30, 2016, substantially all FHLB advances with this convertible feature are subject to conversion in fiscal 2016. These advances are included in the maturity ranges in which they mature, rather than the period in which they are*

subject to conversion.

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C. Other Borrowings Information

As of June 30, 2016 the Corporation had a maximum borrowing capacity with the FHLB of approximately $1.19 billion, of which the unused capacity was $933.4 million. In addition, there were unused capacities of $79.0 million in overnight federal funds line, $137.8 million of Federal Reserve Discount Window borrowings and $5.0 million in a revolving line of credit from a correspondent bank as of June 30, 2016. In connection with its FHLB borrowings, the Corporation is required to hold the capital stock of the FHLB. The amount of FHLB capital stock held was $10.6 million and $12.9 million as of June 30, 2016 and December 31, 2015, respectively. The carrying amount of the FHLB capital stock is its redemption value.

Note 8 – Stock-Based Compensation

A. General Information

Prior to April 25, 2007, all shares authorized for grant as stock-based compensation were limited to grants of stock options. On April 25, 2007, the shareholders of the Corporation approved the Corporation's "2007 Long-Term Incentive Plan" (the "2007 LTIP") under which a total of 428,996 shares of the Corporation's common stock were made available for award grants. On April 28, 2010, the shareholders of the Corporation approved the Corporation's "2010 Long Term Incentive Plan" (the "2010 LTIP") under which a total of 445,002 shares of the Corporation's common stock were made available for award grants. On April 30, 2015, the shareholders of the Corporation approved the Amended and Restated Bryn Mawr Bank Corporation 2010 Long-Term Incentive Plan (the "Amended 2010 LTIP"), under which the total number of shares of Corporation Common Stock made available for award grants was increased by 500,000 shares to 945,002 shares.

In addition to the shareholder-approved plans mentioned in the preceding paragraph, the Corporation periodically authorizes grants of stock-based compensation as inducement awards to new employees. This type of award does not require shareholder approval in accordance with Rule 5635(c)(4) of the Nasdaq listing rules.

Equity awards are authorized to be in the form of, among others, options to purchase the Corporation's common stock, restricted stock awards or units ("RSAs" or "RSUs") and performance stock awards or units ("PSAs" or "PSUs").

RSAs and RSUs have a restriction based on the passage of time and may also have a restriction based on non-market-related performance criteria. The fair value of the RSAs and RSUs is based on the closing price on the day preceding the date of the grant.

The PSAs and PSUs also have a restriction based on the passage of time, but also have a restriction based on performance criteria related to the Corporation's total shareholder return relative to the performance of the community bank index for the respective period. The amount of PSAs or PSUs earned will not exceed 100% of the PSAs or PSUs awarded. The fair value of the PSAs and PSUs is calculated using the Monte Carlo Simulation method.

B. Stock Options

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 fair value of stock option grants is determined using the Black-Scholes pricing model. The assumptions necessary for the calculation of the fair value are expected life of options, annual volatility of stock price, risk-free interest rate and annual dividend yield.

The following table provides information about options outstanding for the three months ended June 30, 2016:

	Shares	**Weighted Average Exercise Price**	**Weighted Average Grant Date Fair Value**
Options outstanding, March 31, 2016	274,900	$ 21.07	$ 5.35
Forfeited	—	$ —	$ —
Expired	—	$ —	$ —
Exercised	(16,850)	$ 21.54	$ 5.08
Options outstanding, June 30, 2016	258,050	$ 21.03	$ 5.37

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The following table provides information about options outstanding for the six months ended June 30, 2016:

	Shares	**Weighted Average Exercise Price**	**Weighted Average Grant Date Fair Value**
Options outstanding, December 31, 2015	290,853	$ 20.88	$ 5.77
Forfeited	—	$ —	$ —
Expired	—	$ —	$ —
Exercised	(32,803)	$ 19.69	$ 8.90
Options outstanding, June 30, 2016	258,050	$ 21.03	$ 5.37

As of June 30, 2016, there were no unvested stock options.

For the three months ended June 30, 2016, the Corporation did not recognize any expense related to stock options. As of June 30, 2016, there was no unrecognized expense related to stock options.

Proceeds, related tax benefits realized from options exercised and intrinsic value of options exercised during the three and six months ended June 30, 2016 and 2015 are detailed below:

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Proceeds from exercise of stock options	$363	$1,905	$647	$4,410
Related tax benefit recognized	13	169	13	446
Net proceeds of options exercised	$376	$2,074	$660	$4,856
Intrinsic value of options exercised	$124	$1,064	$255	$2,464

The following table provides information about options outstanding and exercisable at June 30, 2016:

(dollars in thousands, except exercise price)	**Outstanding**	**Exercisable**
Number of shares	258,050	258,050
Weighted average exercise price	$ 21.03	$ 21.03
Aggregate intrinsic value	$ 2,109	$ 2,109
Weighted average contractual term in years	2.4	2.4

C. Restricted Stock Awards and Performance Stock Awards

The Corporation has granted RSAs, RSUs, PSAs and PSUs under the 2007 LTIP, 2010 LTIP and Amended 2010 LTIP.

RSAs and RSUs

The compensation expense for the RSAs and RSUs is measured based on the market price of the stock on the day prior to the grant date and is recognized on a straight line basis over the vesting period.

For the three and six months ended June 30, 2016, the Corporation recognized $131 thousand and $262 thousand, respectively, of expense related to the Corporation's RSAs and RSUs. As of June 30, 2016, there was $677 thousand of unrecognized compensation cost related to RSAs and RSUs. This cost will be recognized over a weighted average period of 1.8 years.

The following table details the unvested RSAs and RSUs for the three and six months ended June 30, 2016:

	Three Months Ended June 30, 2016		**Six Months Ended June 30, 2016**	
		Weighted		**Weighted**

	Number of Shares	Average Grant Date Fair Value	Number of Shares	Average Grant Date Fair Value
Beginning balance	44,052	$ 28.43	43,802	$ 28.61
Granted	2,500	$ 25.65	4,750	$ 25.96
Vested	(5,332)	$ 22.40	(7,332)	$ 24.56
Forfeited	(1,250)	$ 29.12	(1,250)	$ 29.12
Ending balance	39,970	$ 29.02	39,970	$ 29.02

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For the three and six months ended June 30, 2016, the Corporation recorded $10 thousand and $7 thousand excess tax benefits related to the vesting of RSAs and RSUs.

PSAs and PSUs

The compensation expense for PSAs and PSUs is measured based on the grant date fair value as calculated using the Monte Carlo Simulation method.

For the three and six months ended June 30, 2016, the Corporation recognized $255 thousand and $526 thousand, respectively, of expense related to the PSAs and PSUs. As of June 30, 2016, there was $1.2 million of unrecognized compensation cost related to PSAs. This cost will be recognized over a weighted average period of 1.7 years.

The following table details the unvested PSAs and PSUs for the three and six months ended June 30, 2016:

	Three Months Ended June 30, 2016		**Six Months Ended June 30, 2016**	
	Number of Shares	**Weighted Average Grant Date Fair Value**	**Number of Shares**	**Weighted Average Grant Date Fair Value**
Beginning balance	216,820	$ 15.07	216,820	$ 15.07
Granted	—	$ —	—	$ —

Vested	—	$ —	—	$ —
Forfeited	(1,844)	$ 15.18	(1,844)	$ 15.18
Ending balance	214,976	$ 15.07	214,976	$ 15.07

Note 9 - Pension and Other Post-Retirement Benefit Plans

Prior to the December 2015 settlement of the qualified defined benefits plan (the "QDBP"), the Corporation had three defined benefit pension plans: the QDBP which covered all employees over age 20 1/2 who met certain service requirements, and two non-qualified defined-benefit pension plans ("SERP I" and "SERP II") which are restricted to certain senior officers of the Corporation.

SERP I provides each participant with the equivalent pension benefit provided by the QDBP on any compensation and bonus deferrals that exceed the IRS limit applicable to the QDBP.

On February 12, 2008, the Corporation amended the QDBP and SERP I to freeze further increases in the defined-benefit amounts to all participants, effective March 31, 2008.

On April 1, 2008, the Corporation added SERP II, a non-qualified defined-benefit plan which was restricted to certain senior officers of the Corporation. Effective January 1, 2013, the Corporation curtailed SERP II, as further increases to the defined-benefit amounts to over 20% of the participants were frozen.

On May 29, 2015, by unanimous consent, the Board of Directors of the Corporation voted to terminate the QDBP. On June 2, 2015, notices were sent to participants informing them of the termination. Final distributions to participants were completed by December 31, 2015.

The Corporation also has a postretirement benefit plan ("PRBP") that covers certain retired employees and a group of current employees. The PRBP was closed to new participants in 1994. In 2007, the Corporation amended the PRBP to allow for settlement of obligations to certain current and retired employees. Certain retired participant obligations were settled in 2007 and current employee obligations were settled in 2008.

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The following tables provide details of the components of the net periodic benefits cost (benefit) for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,					
	SERP I and SERP II		**QDBP**		**PRBP**	
(dollars in thousands)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Service cost	$—	$ —	$—	$—	$—	$ —
Interest cost	46	46	—	397	5	5
Expected return on plan assets	—	—	—	(804)	—	—
Amortization of prior service costs	—	—	—	—	—	—
Amortization of net loss	14	16	—	479	10	9
Net periodic benefit cost	$60	$ 62	$—	$72	$15	$ 14

	Six Months Ended June 30,					
	SERP I and SERP II		**QDBP**		**PRBP**	
(dollars in thousands)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Service cost	$—	$—	$—	$—	$—	$ —
Interest cost	92	93	—	795	9	9
Expected return on plan assets	—	—	—	(1,608)	—	—
Amortization of prior service costs	—	—	—	—	—	—
Amortization of net loss	28	32	—	957	20	19
Net periodic benefit cost	$120	$125	$—	$144	$29	$ 28

QDBP: The QDBP was settled as of December 31, 2015. As such, no contributions were made during the three or six months ended June 30, 2016.

SERP I and SERP II: The Corporation contributed $65 thousand and $130 thousand during the three and six months ended June 30, 2016, respectively, and is expected to contribute an additional $130 thousand to the SERP I and SERP II plans for the remaining six months of 2016.

PRBP: In 2005, the Corporation capped the maximum annual payment under the PRBP at 120% of the 2005 benefit. This maximum was reached in 2008 and the cap is not expected to be increased above this level.

Note 10 - Segment Information

FASB Codification 280 – "Segment Reporting" identifies operating segments as components of an enterprise which are evaluated regularly by the Corporation's Chief Operating Decision Maker, our Chief Executive Officer, in deciding how to allocate resources and assess performance. The Corporation has applied the aggregation criterion set forth in this codification to the results of its operations.

The Corporation's Banking segment consists of commercial and retail banking. The Banking segment is evaluated as a single strategic unit which generates revenues from a variety of products and services. The Banking segment generates interest income from its lending (including leasing) and investing activities and is dependent on the gathering of lower cost deposits from its branch network or borrowed funds from other sources for funding its loans, resulting in the generation of net interest income. The Banking segment also derives revenues from other sources including gains on the sale of available for sale investment securities, gains on the sale of residential mortgage loans, service charges on deposit accounts, cash sweep fees, overdraft fees, BOLI income and interchange revenue associated with its Visa Check Card offering.

The Wealth Management segment has responsibility for a number of activities within the Corporation, including trust administration, other related fiduciary services, custody, investment management and advisory services, employee benefits and IRA administration, estate settlement, tax services and brokerage. Bryn Mawr Trust of Delaware and Lau Associates are included in the Wealth Management segment of the Corporation since they have similar economic characteristics, products and services to those of the Wealth Management Division of the Corporation. Powers Craft Parker and Beard ("PCPB"), which was merged with the Corporation's existing insurance subsidiary, Insurance Counsellors of Bryn Mawr ("ICBM"), and RJM, which was acquired on April 1, 2015, now operate under the Powers Craft Parker and Beard, Inc. name. The Wealth Management Division has assumed oversight responsibility for all insurance services of the Corporation. Prior to the PCPB and RJM acquisitions, ICBM was reported through the Banking segment. Any adjustments to prior year figures are immaterial and are not reflected in the tables below.

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The following tables detail segment information for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
(dollars in thousands)	**Banking**	**Wealth Management**	**Consolidated**	**Banking**	**Wealth Management**	**Consolidated**
Net interest income	$26,626	$ 1	$ 26,627	$25,069	$ 1	$ 25,070
Less: loan loss provision	445	—	445	850	—	850
Net interest income after loan loss provision	26,181	1	26,182	24,219	1	24,220
Other income:						
Fees for wealth management services	—	9,431	9,431	—	9,600	9,600
Service charges on deposit accounts	713	—	713	752	—	752
Loan servicing and other fees	539	—	539	597	—	597
Net (loss) gain on sale of loans	896	—	896	778	—	778
Net gain on sale of available for sale securities	(43)	—	(43)	3	—	3
Net (loss) gain on sale of other real estate owned	—	—	—	75	—	75
Insurance commissions	—	845	845	—	817	817
Other operating income	1,411	28	1,439	1,519	36	1,555
Total other income	3,516	10,304	13,820	3,724	10,453	14,177
Other expenses:						
Salaries & wages	8,282	3,915	12,197	7,481	3,583	11,064
Employee benefits	1,590	846	2,436	1,888	730	2,618
Occupancy & equipment	1,971	396	2,367	2,390	418	2,808
Amortization of intangible assets	218	671	889	281	674	955
Professional fees	897	49	946	767	60	827
Other operating expenses	6,320	1,104	7,424	6,819	891	7,710
Total other expenses	19,278	6,981	26,259	19,626	6,356	25,982
Segment profit	10,419	3,324	13,743	8,317	4,098	12,415
Intersegment (revenues) expenses*	(99)	99	—	(106)	106	—
Pre-tax segment profit after eliminations	$10,320	$ 3,423	$ 13,743	$8,211	$ 4,204	$ 12,415
% of segment pre-tax profit after eliminations	75.1 %	24.9 %	100.0 %	66.1 %	33.9 %	100.0 %
Segment assets *(dollars in millions)*	$3,042	$ 48	$ 3,090	$2,899	$ 51	$ 2,950

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(dollars in thousands)	**Six Months Ended June 30, 2016** Banking	Wealth Management	Consolidated	**Six Months Ended June 30, 2015** Banking	Wealth Management	Consolidated
Net interest income	$52,528	$ 1	$ 52,529	$49,864	$ 1	$ 49,865
Less: loan loss provision	1,855	—	1,855	1,419	—	1,419
Net interest income after loan loss provision	50,673	1	50,674	48,445	1	48,446
Other income:						
Fees for wealth management services	—	18,263	18,263	—	18,705	18,705
Service charges on deposit accounts	1,415	—	1,415	1,464	—	1,464
Loan servicing and other fees	1,031	—	1,031	1,188	—	1,188
Net (loss) gain on sale of loans	1,656	—	1,656	1.586	—	1.586
Net gain on sale of available for sale securities	(58)	—	(58)	813	—	813
Net (loss) gain on sale of other real estate owned	(76)	—	(76)	90	—	90
Insurance commissions	—	2,121	2,121	—	1,838	1,838
Other operating income	2,612	64	2,676	3,181	77	3,258
Total other income	6,580	20,448	27,028	8,322	20,620	28,942
Other expenses:						
Salaries & wages	16,179	7,756	23,935	14,976	6,958	21,934
Employee benefits	3,235	1,686	4,921	3,875	1,472	5,347
Occupancy & equipment	4,054	801	4,855	4,440	834	5,274
Amortization of intangible assets	438	1,342	1,780	621	1,316	1,937
Professional fees	1,696	63	1,759	1,421	79	1,500
Other operating expenses	12,092	1,968	14,060	15,508	1,911	17,419
Total other expenses	37,694	13,616	51,310	40,841	12,570	53,411
Segment profit	19,559	6,833	26,392	15.926	8,051	23,977
Intersegment (revenues) expenses*	(198)	198	—	(211)	211	—
Pre-tax segment profit after eliminations	$19,361	$ 7,031	$ 26,392	$15,715	$ 8,262	$ 23,977
% of segment pre-tax profit after eliminations	73.4 %	26.6 %	100.0 %	65.5 %	34.5 %	100.0 %
Segment assets *(dollars in millions)*	$3,042	$ 48	$ 3,090	$2,899	$ 51	$ 2,950

* Inter-segment revenues consist of rental payments, interest on deposits and management fees.

Other segment information is as follows:

Wealth Management Segment Information

	(dollars in millions)	
	June 30, 2016	**December 31, 2015**
Assets under management, administration, supervision and brokerage:	$9,632.5	$ 8,364.8

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Note 11 - Mortgage Servicing Rights

The following table summarizes the Corporation's activity related to mortgage servicing rights ("MSRs") for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,	
(dollars in thousands)	**2016**	**2015**
Balance, beginning of period	$5,183	$4,815
Additions	243	282
Amortization	(181)	(149)
Recovery	—	22
Impairment	(599)	—
Balance, end of period	$4,646	$4,970
Fair value	$4,646	$5,643

	Six Months Ended June 30,	
(dollars in thousands)	**2016**	**2015**
Balance, beginning of period	$5,142	$4,765
Additions	502	519
Amortization	(316)	(263)
Recovery	—	22
Impairment	(682)	(73)
Balance, end of period	$4,646	$4,970
Fair value	$4,646	$5,643
Residential mortgage loans serviced for others, end of period	$610,418	$595,440

As of June 30, 2016 and December 31, 2015, key economic assumptions and the sensitivity of the current fair value of MSRs to immediate 10 and 20 percent adverse changes in those assumptions are as follows:

(dollars in thousands)	**June 30, 2016**	**December 31, 2015**
Fair value amount of MSRs	$4,646	$ 5,726
Weighted average life (in years)	4.8	6.4
Prepayment speeds (constant prepayment rate)*	15.5 %	10.2 %
Impact on fair value:		
10% adverse change	$(225)	$ (198)
20% adverse change	$(431)	$ (384)
Discount rate	9.55 %	10.5 %
Impact on fair value:		
10% adverse change	$(140)	$ (224)
20% adverse change	$(272)	$ (431)

**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. 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.

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Note 12 - Goodwill and Other Intangibles

The Corporation's goodwill and intangible assets related to the acquisitions of Lau Associates, LLC ("Lau") in July 2008, FKF in July 2010, the Private Wealth Management Group of the Hershey Trust Company ("PWMG") in May 2011, Davidson Trust Company ("DTC") in May 2012, the loan and deposit accounts and a branch location of FBD in November 2012, PCPB in October 2014, CBH in January 2015 and RJM in April 2015 are detailed below:

(dollars in thousands)	**Balance December 31, 2015**	**Additions/ Adjustments**	**Amortization**	**Balance June 30, 2016**	**Amortization Period (in years)**
Goodwill – Wealth	$ 20,412	$ —	$ —	$ 20,412	Indefinite
Goodwill – Banking	80,783	—	—	80,783	Indefinite
Goodwill – Insurance	3,570	—	—	3,570	Indefinite
Total	$ 104,765	$ —	$ —	$ 104,765	
Core deposit intangible	$ 4,272	$ —	$ (415)	$ 3,857	10
Customer relationships	14,384	—	(591)	13,793	10 to 20
Non-compete agreements	2,932	—	(751)	2,181	5 to 10
Trade name	2,165	—	—	2,165	Indefinite
Favorable lease	150	—	(23)	127	5.75
Total	$ 23,903	$ —	$ (1,780)	$ 22,123	
Grand total	$ 128,668	$ —	$ (1,780)	$ 126,888	

The Corporation performed its annual review of goodwill and identifiable intangible assets as of December 31, 2015 in accordance with ASC 350, "Intangibles Goodwill and Other." For the three and six months ended June 30, 2016, the Corporation determined there were no events that would necessitate impairment testing of goodwill and other intangible assets.

Note 13 – Accumulated Other Comprehensive Income (Loss)

The following tables detail the components of accumulated other comprehensive income (loss) for the three and six month periods ended June 30, 2016 and 2015:

(dollars in thousands)	**Net Change in Unrealized Gains on Available-for-Sale Investment Securities**	**Net Change in Fair Value of Derivative Used for Cash Flow Hedge**	**Net Change in Unfunded Pension Liability**	**Accumulated Other Comprehensive Loss**
Balance, March 31, 2016	$ 2,695	$ —	$ (1,193)	$ 1,502
Net change	970	—	16	986
Balance, June 30, 2016	$ 3,665	$ —	$ (1,177)	$ 2,488
Balance, March 31, 2015	$ 2,617	$ (259)	$ (12,645)	$ (10,287)
Net change	(1,275)	183	(255)	(1,347)
Balance, June 30, 2015	$ 1,342	$ (76)	$ (12,900)	$ (11,634)

(dollars in thousands)	**Net Change in Unrealized Gains on Available-for-Sale Investment Securities**	**Net Change in Fair Value of Derivative Used for Cash Flow Hedge**	**Net Change in Unfunded Pension Liability**	**Accumulated Other Comprehensive Loss**
Balance, December 31, 2015	$ 774	$ —	$ (1,186)	$ (412)
Net change	2,891	—	9	2,900
Balance, June 30, 2016	$ 3,665	$ —	$ (1,177)	$ 2,488
Balance, December 31, 2014	$ 1,316	$ (25)	$ (12,995)	$ (11,704)
Net change	26	(51)	95	70
Balance, June 30, 2015	$ 1,342	$ (76)	(12,900)	$ (11,634)

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The following table details the amounts reclassified from each component of accumulated other comprehensive loss to each component's applicable income statement line, for the three and six month periods ended June 30, 2016 and 2015:

Description of Accumulated Other Comprehensive Loss Component	**Amount Reclassified from Accumulated Other Comprehensive Loss** For The Three Months Ended June 30, 2016	2015	**Affected Income Statement Category**
Net unrealized gain on investment securities available for sale:			
Realization of (gain) loss on sale of investment securities available for sale	$ 43	$ (3)	Net gain on sale of available for sale investment securities
Less: income tax benefit (expense)	15	1	Less: income tax expense
Net of income tax	$ 28	$ (2)	Net of income tax
Unfunded pension liability:			
Amortization of net loss included in net periodic pension costs*	$ 24	$ 504	Employee benefits
Amortization of prior service cost included in net periodic pension costs*	—	—	Employee benefits
Total expense before income tax benefit	24	504	Total expense before income tax benefit
Less: income tax benefit	8	176	Less: income tax benefit
Net of income tax	$ 16	$ 328	Net of income tax

Description of Accumulated Other Comprehensive Loss Component	**Amount Reclassified from Accumulated Other Comprehensive Loss** For The Six Months Ended	**Affected Income Statement Category**

	June 30, 2016	2015	
Net unrealized gain on investment securities available for sale:			
Realization of (gain) loss on sale of investment securities available for sale	$ 58	$ (813)	Net (loss) gain on sale of available for sale investment securities
Less: income tax expense	20	285	Less: income tax expense
Net of income tax	$ 38	$ (528)	Net of income tax
Unfunded pension liability:			
Amortization of net loss included in net periodic pension costs*	$ 48	$ 1,008	Employee benefits
Amortization of prior service cost included in net periodic pension costs*	—	—	Employee benefits
Total expense before income tax benefit	48	1,008	Total expense before income tax benefit
Less: income tax benefit	17	353	Less: income tax benefit
Net of income tax	$ 31	$ 655	Net of income tax

**Accumulated other comprehensive loss components are included in the computation of net periodic pension cost. See Note 9 - Pension and Other Post-Retirement Benefit Plans*

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Note 14 - Shareholders' Equity

Dividend

On July 21, 2016, the Corporation's Board of Directors declared a regular quarterly dividend of $0.21 per share payable September 1, 2016 to shareholders of record as of August 4, 2016. During the second quarter of 2016, the Corporation paid or accrued, as applicable, a regular quarterly dividend of $0.20 per share. This dividend totaled $3.4 million, based on outstanding shares and restricted stock units as of May 10, 2016 of 17,069,243 shares.

S-3 Shelf Registration Statement and Offerings Thereunder

In March 2015, the Corporation filed a shelf registration statement on Form S-3 (the "Shelf Registration Statement") to replace its 2012 Shelf Registration Statement, which was set to expire in April 2015. 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.

Options

In addition to shares that may be issued through the Plan, the Corporation also issues shares through the exercise of stock options. During the three and six months ended June 30, 2016, 16,850 shares and 32,803 shares, respectively, were issued pursuant to the exercise of stock options, increasing shareholders' equity by $363 thousand and $647 thousand, respectively.

Stock Repurchases

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. During the three months ended March 31, 2016, the Corporation repurchased 286,700 shares under the 2015 Program at an average price of $27.80 per share. No shares were repurchased under the 2015 Program during the three months ended June 30, 2016. All share repurchases under the 2015 Program were accomplished in open market transactions. As of June 30, 2016, the maximum number of shares remaining authorized for repurchase under the 2015 Program was 189,300. In addition to the 2015 Program, it is the Corporation’s practice to retire shares to its treasury account upon the vesting of stock awards to certain officers in order to cover the statutory income tax withholdings related to such vestings.

Note 15 - Accounting for Uncertainty in Income Taxes

The Corporation recognizes the financial statement benefit of a tax position only after determining that the Corporation would be more likely than not to 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% likelihood of being realized upon settlement with the relevant tax authority.

The Corporation is subject to income taxes in the United States federal jurisdiction and multiple state jurisdictions. The Corporation is no longer subject to U.S. federal income tax examination by taxing authorities for years before 2012.

The Corporation’s policy is to record interest and penalties on uncertain tax positions as income tax expense. No interest or penalties were accrued for the three or six months ended June 30, 2016 or 2015.

Note 16 - Fair Value Measurement

The following disclosures are made in conjunction with the application of fair value measurements.

FASB ASC 820 “Fair Value Measurement” establishes a fair value hierarchy based on the nature of data inputs for fair value determinations, under which the Corporation is required to value each asset using assumptions that market participants would utilize to value that asset. When the Corporation uses its own assumptions, it is required to disclose additional information about the assumptions used and the effect of the measurement on earnings or the net change in assets for the period.

The Corporation’s investment securities available for sale, which generally include state and municipal securities, U.S. government agency securities and mortgage-related securities, are reported at fair value. These securities are valued by an independent third party. The third party’s evaluations are based on market data. They utilize evaluated pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, their pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (only obtained from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. For certain securities, additional inputs may be used or some market inputs may not be applicable. Inputs are prioritized differently on any given day based on market conditions.

U.S. Government agency securities are evaluated and priced using multi-dimensional relational models and option-adjusted spreads. State and municipal securities are evaluated on a series of matrices including reported trades and material event notices. Mortgage-related securities are evaluated using matrix correlation to treasury or floating index benchmarks, prepayment speeds, monthly payment information and other benchmarks. Other available for sale investments are evaluated using a broker-quote based application, including quotes from issuers. The Corporation has a sufficient understanding of the third party service’s valuation models, assumptions and inputs used in determining the fair value of available for sale investments to enable management to maintain an appropriate system of internal control.

The value of the investment portfolio is determined using three broad levels of inputs:

Level 1 – Quoted prices in active markets for identical securities.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Instruments whose significant value drivers are unobservable.

These levels are not necessarily an indication of the risks or liquidity associated with these investments. The following tables summarize the assets at June 30, 2016 and December 31, 2015 that are recognized on the Corporation’s balance sheet using fair value measurement determined based on the differing levels of input.

The following table sets forth the fair value of assets measured on a recurring and non-recurring basis as of June 30, 2016:

(dollars in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets Measured at Fair Value on a Recurring Basis:				
Investment securities (available for sale and trading):				
U.S. Treasury securities	$0.1	$0.1	$—	$—
Obligations of the U.S. government agency securities	86.1	—	86.1	—
Obligations of state & political subdivisions	39.6	—	39.6	—
Mortgage-backed securities	186.3	—	186.3	—
Collateralized mortgage obligations	36.7	—	36.7	—
Mutual funds	18.7	18.7	—	—
Other debt securities	1.5	—	1.1.57	—
Total assets measured on a recurring basis at fair value	$369.0	$18.8	$350.2	$—
Assets Measured at Fair Value on a Non-Recurring Basis				
Mortgage servicing rights	$4.6	$—	$—	$4.6
Impaired loans and leases	13.9	—	—	13.9
Other real estate owned (“OREO”)	0.8	—	—	0.8
Total assets measured on a non-recurring basis at fair value	$19.3	$—	$—	$19.3

The following table sets forth the fair value of assets measured on a recurring and non-recurring basis as of December 31, 2015:

(dollars in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets Measured at Fair Value on a Recurring Basis:				
Investment securities (available for sale and trading):				
U.S. Treasury securities	$0.1	$0.1	$—	$—
Obligations of the U.S. government agency securities	101.5	—	101.5	—
Obligations of state & political subdivisions	42.0	—	42.0	—
Mortgage-backed securities	158.7	—	158.7	—
Collateralized mortgage obligations	29.8	—	29.8	—
Mutual funds	19.2	19.2	—	—
Other debt securities	1.6	—	1.6	—
Total assets measured on a recurring basis at fair value	$352.9	$19.3	$333.6	$—
Assets Measured at Fair Value on a Non-Recurring Basis				
Mortgage servicing rights	$5.7	$—	$—	$5.7
Impaired loans and leases	13.8	—	—	13.8
OREO	2.6	—	—	2.6
Total assets measured on a non-recurring basis at fair value	$22.1	$—	$—	$22.1

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During the three months ended June 30, 2016, a decrease of $96 thousand was recorded in the Allowance as a result of adjusting the carrying value and estimated fair value of the impaired loans in the above tables. As it relates to the fair values of assets measured on a recurring basis, there have been no transfers between levels during the three months ended June 30, 2016.

Impaired Loans

The Corporation evaluates and values impaired loans at the time the loan is identified as impaired, and the fair values of such loans are estimated using Level 3 inputs in the fair value hierarchy. Each loan's collateral has a unique appraisal and management's discount of the value is based on the factors unique to each impaired loan. The significant unobservable input in determining the fair value is management's subjective discount on appraisals of the collateral securing the loan, which range from 10% - 50%. Collateral may consist of real estate and/or business assets including equipment, inventory and/or accounts receivable and the value of these assets is determined based on the appraisals by qualified licensed appraisers hired by the Corporation. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management's expertise and knowledge of the client and the client's business.

The Corporation has an appraisal policy in which an appraisal is obtained for a commercial loan at the point at which the loan either becomes nonperforming or is downgraded to a substandard or worse classification. For consumer loans, the Corporation obtains updated appraisals when a loan becomes 90 days past due or when it receives other information that may indicate possible impairment. Based on the appraisals obtained by the Corporation, an appropriate Allowance is allocated to the particular loan.

Other Real Estate Owned

Other real estate owned consists of properties acquired as a result of foreclosures and deeds in-lieu-of foreclosure. Properties are classified as OREO and are reported at the lower of cost or fair value less cost to sell, and are classified as Level 3 in the fair value hierarchy.

Mortgage Servicing Rights

MSRs do not trade in an active, open market with readily observable prices. Accordingly, the Corporation obtains the fair value of the MSRs using a third-party pricing provider. The provider determines the fair value by discounting projected net servicing cash flows of the remaining servicing portfolio. The valuation model used by the provider considers market loan prepayment predictions and other economic factors which the Corporation considers to be significant unobservable inputs. The fair value of MSRs is mostly affected by changes in mortgage interest rates since rate changes cause the loan prepayment acceleration factors to increase or decrease. All assumptions are market driven. The Corporation has a sufficient understanding of the third party service's valuation models, assumptions and inputs used in determining the fair value of MSRs to enable management to maintain an appropriate system of internal control. Mortgage servicing rights are classified within Level 3 of the fair value hierarchy as the valuation is model driven and primarily based on unobservable inputs.

Note 17 - Fair Value of Financial Instruments

FASB ASC 825, "Disclosures about Fair Value of Financial Instruments" requires disclosure of the fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate such value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other fair value techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The aggregate fair value amounts presented below do not represent the underlying value of the Corporation.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate their fair values.

Investment Securities

Estimated fair values for investment securities are generally valued by an independent third party based on market data, utilizing pricing models that vary by asset and incorporate available trade, bid and other market information. Management reviews, annually, the process utilized by its independent third-party valuation experts. On a quarterly basis, Management tests the validity of the prices provided by the third party by selecting a representative sample of the portfolio and obtaining actual trade results, or if actual trade results are not available, competitive broker pricing. See Note 4 of the Notes to Consolidated Financial Statements for more information.

Loans Held for Sale

The fair value of loans held for sale is based on pricing obtained from secondary markets.

Net Portfolio Loans and Leases

For variable-rate loans that re-price frequently and which have no significant change in credit risk, estimated fair values are based on carrying values. Fair values of certain mortgage loans and consumer loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality and is indicative of an entry price. The estimated fair value of nonperforming loans is based on discounted estimated cash flows as determined by the internal loan review of the Corporation or the appraised fair value of the underlying collateral, as determined by independent third party appraisers. This technique does not reflect an exit price.

Impaired Loans

The Corporation evaluates and values impaired loans at the time the loan is identified as impaired, and the fair values of such loans are estimated using Level 3 inputs in the fair value hierarchy. Each loan's collateral has a unique appraisal and management's discount of the value is based on the factors unique to each impaired loan. The significant unobservable input in determining the fair value is management's subjective discount on appraisals of the collateral securing the loan, which range from 10% - 50%. Collateral may consist of real estate and/or business assets including equipment, inventory and/or accounts receivable and the value of these assets is determined based on the appraisals by qualified licensed appraisers hired by the Corporation. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management's expertise and knowledge of the client and the client's business.

Mortgage Servicing Rights

The fair value of the MSRs for these periods was determined using a proprietary third-party valuation model that calculates the present value of estimated future servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds and discount rates. Due to the proprietary nature of the valuation model used, the Corporation classifies the value of MSRs as using Level 3 inputs.

Other Assets

The carrying amount of FHLB stock, accrued interest receivable, income taxes receivable and other investments are their fair values.

Deposits

The estimated fair values disclosed for noninterest-bearing demand deposits, savings, NOW accounts, and market rate accounts are, by definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying amounts). Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of expected monthly maturities on the certificate of deposit. FASB Codification 825 defines the fair value of demand deposits as the amount payable on demand as of the reporting date and prohibits adjusting estimated fair value from any value derived from retaining those deposits for an expected future period of time.

Short-term borrowings

The carrying amount of short-term borrowings, which include overnight repurchase agreements, fed funds and FHLB advances with original maturity of one year or less, approximates their fair value.

Long-term FHLB Advances and Other Borrowings

The fair value of long-term FHLB advances and other borrowings (with original maturities of greater than one year) is established using a discounted cash flow calculation that applies interest rates currently being offered on mid-term and long term borrowings.

Subordinated Notes

The fair value of the Notes is estimated by discounting the principal balance using the FHLB yield curve for the term to the call date as the Corporation has the option to call the Notes. The Notes are classified within Level 2 in the fair value hierarchy.

Other Liabilities

The carrying amounts of accrued interest payable and other accrued payables are their fair values.

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Off-Balance Sheet Instruments

Estimated fair values of the Corporation’s commitments to extend credit, standby letters of credit and financial guarantees are not included in the table below as their carrying values generally approximate their fair values. These instruments generate fees that approximate those currently charged to originate similar commitments.

As of the dates indicated, the carrying amount and estimated fair value of the Corporation’s financial instruments are as follows:

	Fair Value	As of June 30, 2016		As of December 31 2015	
	Hierarchy	Carrying	Estimated	Carrying	Estimated
(dollars in thousands)	Level*	Amount	Fair Value	Amount	Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	$34,191	$34,191	$143,067	$143,067
Investment securities, available for sale	See Note 16	365,470	365,470	348,966	348,966
Investment securities, held to maturity	Level 2	2,915	2,916	—	—
Investment securities, trading	Level 2	3,521	3,521	3,950	3,950
Loans held for sale	Level 2	11,882	11,882	8,987	8,987
Net portfolio loans and leases	Level 3	2,406,785	2,444,484	2,253,131	2,273,947
Mortgage servicing rights	Level 3	4,646	4,646	5,142	5,726
Other assets	Level 3	27,484	27,484	30,271	30,271
Total financial assets		$2,856,894	$2,894,594	$2,793,514	$2,814,914
Financial liabilities:					
Deposits	Level 2	$2,409,691	$2,410,336	$2,252,725	$2,251,703
Short-term borrowings	Level 2	19,119	19,119	94,167	94,156
Long-term FHLB advances and other borrowings	Level 2	224,802	223,859	254,863	254,796
Subordinated notes	Level 2	29,505	31,032	29,479	27,453
Other liabilities	Level 2	34,506	34,506	34,052	34,052
Total financial liabilities		$2,717,623	$2,718,852	$2,665,286	$2,662,160

*See Note 16 for a description of fair value hierarchy levels.

Note 18 - New Accounting Pronouncements

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.

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.

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

ASU 2016-09 was issued in March 2016 as part of FASB's simplification initiative, and intends to improve the accounting for share-based payment transactions. The ASU 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, (3) tax withholding requirements and cash flow classification. ASU 2016-09 will be effective for fiscal years beginning after December 15, 2016, with early adoption permitted in any interim or annual period, provided that the entire ASU is adopted. The Corporation has not elected to early-adopt ASU 2016-09 and is currently evaluating the effect that the ASU will have on its consolidated financial statements and related disclosures.

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

The following is the Corporation's discussion and analysis of the significant changes in the financial condition, results of operations, capital resources and liquidity presented in the accompanying consolidated financial statements. Current performance does not guarantee, and may not be indicative of, similar performance in the future.

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 provide community banking, business banking, residential mortgage lending, consumer and commercial lending to customers through its 25 full-service branches, eight limited-hour retirement community offices, and one limited-service branch located throughout the Montgomery, Delaware, Chester and Dauphin counties of Pennsylvania and New Castle county in Delaware. The Corporation and its subsidiaries also provide wealth management and insurance advisory services through its network of Wealth Management and insurance offices located in Bryn Mawr, Devon and Hershey, Pennsylvania as well as Greenville, Delaware. The Corporation's stock trades on the NASDAQ Stock 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 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, the Federal Deposit Insurance Corporation ("FDIC"), the Federal Reserve Board and the Pennsylvania Department of Banking and Securities.

Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Corporation and its subsidiaries conform with U.S. generally accepted accounting principles ("GAAP"). All 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, the Corporation 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. However, there are uncertainties inherent in making these estimates and actual results could differ from these estimates. The Corporation has identified certain areas that require estimates and assumptions, which include the allowance for loan and lease losses (the “Allowance”), the valuation of goodwill and intangible assets, the fair value of investment securities, and the valuation of mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation.

These critical accounting policies, along with other significant accounting policies, are presented in Footnote 1 – Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements in the Corporation’s 2015 Annual Report on Form 10-K (the “2015 Annual Report”).

Acquisition of Robert J. McAllister Agency, Inc. (“RJM”)

The acquisition of RJM, an insurance brokerage headquartered in Rosemont, Pennsylvania, was completed on April 1, 2015. The consideration paid by the Corporation was $1.0 million, of which $500 thousand was paid at closing and five contingent cash payments, not to exceed $100 thousand each, to be payable on each of March 31, 2016, 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 first of these contingent payments, in the amount of $85 thousand, was paid during the three months ended June 30, 2016. The acquisition enhanced the Corporation’s ability to offer comprehensive insurance solutions to both individual and business clients.

Acquisition of Continental Bank Holdings, Inc. (“CBH”)

On January 1, 2015, the previously announced merger (the “Merger” or the “Continental Merger”) of CBH with and into the Corporation, and the merger of Continental Bank with and into The Bryn Mawr Trust Company, the wholly-owned subsidiary of the Corporation (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 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, $1,323,000 was paid to certain warrant holders to cash-out certain warrants. The aggregate consideration paid to former CBH shareholders totaled $125.1 million.

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Executive Overview

The following items highlight the Corporation's results of operations for the three and six months ended June 30, 2016, as compared to the same periods in 2015, and the changes in its financial condition as of June 30, 2016 as compared to December 31, 2015. More detailed information related to these highlights can be found in the sections that follow.

Three Month Results of Operations

Net income for the three months ended June 30, 2016 was $8.9 million, an increase of $801 thousand as compared to net income of $8.1 million for the same period in 2015. Diluted earnings per share was $0.52 for the three months ended June 30, 2016 as compared to $0.45 for the same period in 2015.

Return on average equity ("ROE") and return on average assets ("ROA") for the three months ended June 30, 2016 were 9.80% and 1.16%, respectively, as compared to ROE and ROA of 8.61% and 1.12%, respectively, for the same period in 2015.

Tax-equivalent net interest income increased $1.6 million, or 6.3%, to $26.8 million for the three months ended June 30, 2016, as compared to $25.2 million for the same period in 2015.

Provision for loan and lease losses (the "Provision"), of $445 thousand for the three months ended June 30, 2016 was a decrease of $405 thousand from the $850 thousand Provision recorded for the same period in 2015.

Non-interest income of $13.8 million for the three months ended June 30, 2016 decreased $357 thousand, or 2.5%, as compared to $14.2 million for the same period in 2015.

Fees for wealth management services and insurance revenue of $9.4 million and $845 thousand, respectively, for the three months ended June 30, 2016 was a decrease of $169 thousand and an increase of $28 thousand, respectively, from the same period in 2015.

Non-interest expense of $26.3 million for the three months ended June 30, 2016 increased $277 thousand, from $26.0 million for the same period in 2015.

Six Month Results of Operations

Net income for the six months ended June 30, 2016 was $17.2 million, an increase of $1.6 million as compared to net income of $15.6 million for the same period in 2015. Diluted earnings per share was $1.01 for the six months ended June 30, 2016 as compared to $0.87 for the same period in 2015.

ROE and ROA for the six months ended June 30, 2016 were 9.51% and 1.14%, respectively, as compared to ROE and ROA of 8.39% and 1.08%, respectively, for the same period in 2015.

Tax-equivalent net interest income increased $2.7 million, or 5.4%, to $52.8 million for the six months ended June 30, 2016, as compared to $50.1 million for the same period in 2015.

Provision of $1.9 million for the six months ended June 30, 2016 was an increase of $436 thousand from the $1.4 million Provision recorded for the same period in 2015.

Non-interest income of $27.0 million for the six months ended June 30, 2016 decreased $1.9 million, or 6.6%, as compared to $28.9 million for the same period in 2015.

Fees for wealth management services and insurance revenue of $18.3 million and $2.1 million, respectively, for the six months ended June 30, 2016 were a decrease of $442 thousand and an increase of $283 thousand, respectively, from the same period in 2015.

Non-interest expense of $51.3 million for the six months ended June 30, 2016 decreased $2.1 million, from $53.4 million for the same period in 2015.

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Changes in Financial Condition

Total assets of $3.09 billion as of June 30, 2016 increased $59.1 million from December 31, 2015.

Shareholders' equity of $372.5 million as of June 30, 2016 increased $6.8 million from $365.7 million as of December 31, 2015.

Total portfolio loans and leases as of June 30, 2016 were $2.42 billion, an increase of $154.8 million from the December 31, 2015 balance.

Total non-performing loans and leases of $9.6 million represented 0.40% of portfolio loans and leases as of June 30, 2016 as compared to $10.2 million, or 0.45% of portfolio loans and leases as of December 31, 2015.

The $17.0 million Allowance, as of June 30, 2016, represented 0.70% of portfolio loans and leases, as compared to $15.9 million, or 0.70% of portfolio loans and leases as of December 31, 2015.

Total deposits of $2.41 billion as of June 30, 2016 increased $157.0 million from $2.25 billion as of December 31, 2015.

Wealth Management assets under management, administration, supervision and brokerage as of June 30, 2016 were $9.63 billion, an increase of $1.27 billion from December 31, 2015.

Key Performance Ratios

Key financial performance ratios for the three months and six ended June 30, 2016 and 2015 are shown in the table below:

	Three Months Ended June 30,	Six Months Ended June 30,

	2016	2015	2016	2015
Annualized return on average equity	9.80%	8.61%	9.51%	8.39%
Annualized return on average assets	1.16%	1.12%	1.14%	1.08%
Tax-equivalent net interest margin	3.81%	3.81%	3.84%	3.80%
Basic earnings per share	$0.53	$0.46	$1.02	$0.89
Diluted earnings per share	$0.52	$0.45	$1.01	$0.87
Dividend per share	$0.20	$0.19	$0.40	$0.38
Dividend declared per share to net income per basic common share	37.7%	41.5%	39.2%	42.9%

The following table presents certain key period-end balances and ratios as of June 30, 2016 and December 31, 2015:

(dollars in millions, except per share amounts)	June 30, 2016	December 31, 2015
Book value per share	$21.76	$21.40
Tangible book value per share	$14.60	$13.86
Allowance as a percentage of loans and leases	0.70 %	0.70 %
Tier I capital to risk weighted assets	10.45 %	10.72 %
Tangible common equity ratio	8.29 %	8.17 %
Loan to deposit ratio	101.1 %	101.1 %
Wealth assets under management, administration, supervision and brokerage	$9,632.5	$8,364.8
Portfolio loans and leases	$2,423.8	$2,269.0
Total assets	$3,090.1	$3,031.0
Shareholders' equity	$372.5	$365.7

The following sections discuss, in detail, the Corporation's results of operations for the three and six months ended June 30, 2016, as compared to the same periods in 2015, and the changes in its financial condition as of June 30, 2016 as compared to December 31, 2015.

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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, insurance revenue, gains and losses from the sale loans, gains and losses from the sale of investment securities available for sale 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.

TAX-EQUIVALENT NET INTEREST INCOME

Net interest income is the primary source of the Corporation's revenue. The below tables present a summary, for the three and six months ended June 30, 2016 and 2015, of the Corporation's average balances and tax-equivalent yields earned on its interest-earning assets and the tax-equivalent rates paid on its interest-bearing liabilities. The tax-equivalent net interest margin is the tax-equivalent net interest income as a percentage of average interest-earning assets. The tax-equivalent net interest spread is the difference between the weighted average tax-equivalent yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. The effect of noninterest-bearing liabilities represents the effect on the net interest margin of net funding provided by noninterest-earning assets, noninterest-bearing liabilities and shareholders' equity.

Tax-equivalent net interest income increased $1.6 million, or 6.3%, to $26.8 million for the three months ended June 30, 2016, as compared to $25.2 million for the same period in 2015. The increase in net interest income between the periods was largely related to the increase in average loans for the three months ended June 30, 2016 as compared to the same period in 2015. Average loans for the second quarter of 2016 increased by $294.5 million from the same period in 2015, while the yield earned on loans decreased by 22 basis points. Partially offsetting the increase in average loans was an $88.5 million increase in interest-bearing deposits accompanied by a 7 basis point increase in rate paid on those deposits. In addition, average subordinated notes increased by $29.5 million between periods. The subordinated notes were issued in August 2015.

For the six months ended June 30, 2016, tax equivalent net interest income increased by $2.7 million, or 5.4%, from the same period in 2015. Largely contributing to the increase in tax-equivalent net interest income was the $260.0 million in average loans for the six months ended June 30, 2016 as compared to the same period in 2015. The increase in average loans was offset by a $152.3 million decrease in average interest-bearing deposits with banks, as these funds were redeployed from lower-earning deposit accounts to fund loan originations. Partially offsetting this growth in average interest-earning assets was an $88.5 million increase in average interest-bearing deposits.

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Analyses of Interest Rates and Interest Differential

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

	For the Three Months Ended June 30, 2016			2015		
(dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Average Rates Earned/ Paid**	**Average Balance**	**Interest Income/ Expense**	**Average Rates Earned/ Paid**
Assets:						
Interest-bearing deposits with banks	$44,950	$42	0.38 %	$182,099	$124	0.27 %
Investment securities - available for sale:						
Taxable	325,893	1,433	1.77 %	310,011	1,184	1.53 %
Non-taxable[3]	39,193	187	1.92 %	37,035	157	1.70 %
Total investment securities - available for sale	365,086	1,620	1.78 %	347,046	1,341	1.55 %
Investment securities – held to maturity	2,427	4	0.66 %	—	—	
Investment securities - trading	3,640	2	0.22 %	4,034	11	1.09 %
Loans and leases[1][2][3]	2,412,643	27,761	4.63 %	2,118,106	25,623	4.85 %
Total interest-earning assets	2,828,746	29,429	4.18 %	2,651,285	27,099	4.10 %
Cash and due from banks	16,413			16,222		
Allowance for loan and lease losses	(17,271)			(14,346)		
Other assets	262,065			257,540		
Total assets	$3,089,953			$2,910,701		
Liabilities:						
Savings, NOW, and market rate accounts	$1,273,964	589	0.19 %	$1,224,544	575	0.19 %
Wholesale deposits	196,517	361	0.74 %	130,497	195	0.60 %
Time deposits	246,771	452	0.74 %	273,718	292	0.43 %
Total interest-bearing deposits	1,717,252	1,402	0.33 %	1,628,759	1,062	0.26 %
Short-term borrowings	32,328	20	0.25 %	34,980	10	0.11 %
Long-term FHLB advances and other borrowings	236,248	867	1.48 %	249,678	851	1.37 %
Subordinated notes	29,496	370	5.05 %	—	— %	
Total borrowings	298,072	1,257	1.70 %	284,658	861	1.21 %
Total interest-bearing liabilities	2,015,324	2,659	0.53 %	1,913,417	1,923	0.40 %
Non-interest-bearing deposits	675,710			580,240		
Other liabilities	32,804			37,890		
Total non-interest-bearing liabilities	708,514			618,130		
Total liabilities	2,723,838			2,531,547		
Shareholders' equity	366,115			379,154		
Total liabilities and shareholders' equity	$3,089,953			$2,910,701		
Net interest spread			3.65 %			3.70 %
Effect of non-interest-bearing liabilities			0.16 %			0.11 %

Tax-equivalent net interest income and margin on earning assets(3)	$ 26,770	3.81	%	$ 25,176	3.81	%
Tax-equivalent adjustment(3)	$ 143	0.02	%	$ 106	0.02	%

(1) *Nonaccrual loans have been included in average loan balances, but interest on nonaccrual loans has been excluded for purposes of determining interest income.*
(2) *Loans include portfolio loans and leases and loans held for sale.*
(3) *Tax rate used for tax-equivalent calculations is 35%.*

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(dollars in thousands)	For the Six Months Ended June 30, 2016 Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid		2015 Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	
Assets:								
Interest-bearing deposits with banks	$42,000	$88	0.42	%	$194,328	$239	0.25	%
Investment securities - available for sale:								
Taxable	321,123	2,832	1.77	%	322,421	2,520	1.58	%
Non-taxable[3]	39,925	378	1.90	%	36,184	360	2.01	%
Total investment securities - available for sale	361,048	3,210	1.79	%	358,605	2,880	1.62	%
Investment securities – held to maturity	1,214	4	0.66	%	—	—		
Investment securities - trading	3,793	2	0.11	%	3,966	15	0.76	%
Loans and leases[1][2][3]	2,360,613	54,539	4.65	%	2,100,592	50,850	4.88	%
Total interest-earning assets	2,768,668	57,843	4.20	%	2,657,491	53,984	4.10	%
Cash and due from banks	16,457				17,649			
Allowance for loan and lease losses	(16,755)				(14,605)			
Other assets	263,180				253,873			
Total assets	$3,031,550				$2,914,408			
Liabilities:								
Savings, NOW, and market rate accounts	$1,276,797	1,158	0.18	%	$1,238,399	1,169	0.19	%
Wholesale deposits	166,859	594	0.72	%	135,282	383	0.57	%
Retail time deposits	231,795	726	0.63	%	270,775	538	0.40	%
Total interest-bearing deposits	1,675,451	2,478	0.30	%	1,644,456	2,090	0.26	%
Short-term borrowings	33,243	37	0.22	%	45,038	31	0.14	%
Long-term FHLB advances and other borrowings	243,131	1,775	1.47	%	257,963	1,761	1.38	%
Subordinated notes	29,489	736	5.02	%	—	—		
Total borrowings	305,863	2,548	1.68	%	303,001	1,792	1.19	%
Total interest-bearing liabilities	1,981,314	5,026	0.51	%	1,947,457	3,882	0.40	%
Non-interest-bearing deposits	653,379				557,386			
Other liabilities	33,363				34,332			
Total non-interest-bearing liabilities	686,742				591,718			
Total liabilities	2,668,056				2,539,175			
Shareholders’ equity	363,494				375,233			
Total liabilities and shareholders’ equity	$3,031,550				$2,914,408			
Net interest spread			3.69	%			3.70	%
Effect of non-interest-bearing liabilities			0.15	%			0.10	%
Tax-equivalent net interest income and margin on earning assets[3]		$52,817	3.84	%		$50,102	3.80	%
Tax-equivalent adjustment[3]		$288	0.02	%		$237	0.02	%

(1) Nonaccrual loans have been included in average loan balances, but interest on nonaccrual loans has been excluded for purposes of determining interest income.

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

(3) Tax rate used for tax-equivalent calculations is 35%.

Rate/Volume Analysis (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 three and six months ended June 30, 2016 as compared to the same periods in 2015, allocated by rate and volume. The change in interest income and/or expense due to both volume and rate has been allocated to changes in volume.

	2016 Compared to 2015					
	Three Months Ended June 30,			**Six Months Ended June 30,**		
(dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest income						
Interest-bearing deposits with other banks	$(160)	$78	$(82)	$(247)	$96	$(151)
Investment securities	71	203	274	40	281	321
Loans and leases	9,299	(7,161)	2,138	10,188	(6,499)	3,689
Total interest income	$9,210	$(6,880)	$2,330	$9,981	$(6,122)	$3,859
Interest expense:						
Savings, NOW and market rate accounts	$14	$—	$14	$89	$(100)	$(11)
Wholesale deposits	98	68	166	88	123	211
Retail time deposits	(180)	340	160	(199)	387	188
Borrowed funds**	(214)	240	26	(223)	243	20
Subordinated notes	370	—	370	736	—	736
Total interest expense	88	648	736	491	653	1,144
Interest differential	$9,122	$(7,528)	$1,594	$9,490	$(6,775)	$2,715

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

***Borrowed funds include short-term borrowings and Federal Home Loan Bank advances and other borrowings.*

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Tax-Equivalent Net Interest Margin

The tax-equivalent net interest margin of 3.81% for the three months ended June 30, 2016 remained unchanged from the same period in 2015. The contribution to the tax-equivalent net interest margin from the accretion of fair value marks was 17 basis points for the three months ended June 30, 2016 as compared to 22 basis points for the same period in 2015.

For the six months ended June 30, 2016, the tax-equivalent net interest margin increased by 4 basis points from 3.80% to 3.84%. The accretion of fair value marks for the six months ended June 30, 2016 contributed 17 basis points to the margin, as compared to 22 basis points for the same period in 2015.

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

Quarter	Interest-Earning Asset Yield	Interest-Bearing Liability Cost	Net Interest Spread	Effect of Non-Interest Bearing Sources	Net Interest Margin
2nd Quarter 2016	4.18 %	0.53 %	3.65 %	0.16 %	3.81 %
1st Quarter 2016	4.22 %	0.49 %	3.73 %	0.14 %	3.87 %
4th Quarter 2015	4.11 %	0.48 %	3.63 %	0.14 %	3.77 %
3rd Quarter 2015	3.97 %	0.45 %	3.52 %	0.13 %	3.65 %
2nd Quarter 2015	4.10 %	0.40 %	3.70 %	0.11 %	3.81 %

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, through the management of its investment portfolio, its offerings of loan and selected deposit terms and through wholesale funding. Wholesale funding consists of multiple sources including borrowings from the FHLB, the Federal Reserve Bank of Philadelphia's discount window, certificates of deposit from institutional brokers, including the Certificate of Deposit Account Registry Service ("CDARS"), the Insured Network Deposit ("IND") Program, the Charity Deposits Corporation ("CDC"), the Insured Cash Sweep ("ICS") and the Pennsylvania Local Government Investment Trust ("PLGIT").

The Corporation uses several tools to manage its interest rate risk including interest rate sensitivity analysis, or gap analysis, market value of portfolio equity analysis, interest rate simulations under various rate 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 12 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 Over the Twelve Months Beginning After June 30, 2016		Change in Net Interest Income Over the Twelve Months Beginning After December 31, 2015	
	Amount	Percentage	Amount	Percentage
+300 basis points	$7,267	6.84 %	$3,128	3.09 %
+200 basis points	$4,511	4.25 %	$1,637	1.62 %
+100 basis points	$1,728	1.63 %	$210	0.21 %
-100 basis points	$(3,030)	(2.85)%	$(2,490)	(2.46)%

The above interest rate simulation suggests that the Corporation's balance sheet is asset sensitive as of June 30, 2016 in the +100 basis point scenario, which is similar to the December 31, 2015 simulation. Asset sensitivity table indicates that a 100, 200 or 300 basis point increase in interest rates would have a positive impact on net interest income over the next 12 months. The balance sheet is slightly more asset sensitive in comparison to December 31, 2015. This is a result of the decline in low interest earning cash balances which was redeployed into higher earning investment and loan assets, but was partially offset by slight increases in funding costs.

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 other periods. Actual customer behavior may be different than expected behavior, which could cause an unexpected outcome and may result in lower net interest income.

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Gap Analysis

The interest sensitivity, or gap analysis, shows interest rate risk by identifying re-pricing gaps in the Corporation's balance sheet. All assets and liabilities are categorized in the following table according to their behavioral sensitivity, which is usually the earliest of either: re-pricing, 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 placed in a separate period. Capital is spread over time periods to reflect the Corporation's view of the maturity of these funds.

The following table presents the Corporation's interest rate sensitivity position or gap analysis as of June 30, 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	$20.5	$—	$—	$—	$ —	$20.5
Investment securities – available for sale	32.8	73.6	172.2	86.9	—	365.5
Investment securities – held to maturity	—	—	—	2.9	—	2.9
Investment securities – trading	3.5	—	—	—	—	3.5
Loans and leases[1]	803.1	299.0	972.2	361.4	—	2,435.7
Allowance for loan and lease losses	—	—	—	—	(17.0)	(17.0)
Cash and due from banks	—	—	—	—	13.7	13.7
Other assets	—	—	—	—	265.3	265.3
Total assets	$859.9	$372.6	$1,144.4	$451.2	$ 262.0	$3,090.1
Liabilities and shareholders' equity:						
Demand, non-interest-bearing	$42.7	$128.0	$179.8	$338.7	$ —	$689.2
Savings, NOW and market rate	89.2	267.6	627.1	285.5	—	1,269.4
Time deposits	42.9	143.7	92.3	0.2	—	279.1
Wholesale non-maturity deposits	58.7	—	—	—	—	58.7
Wholesale time deposits	15.8	47.6	49.9	—	—	113.3
Short-term borrowings	19.1	—	—	—	—	19.1
Long-term FHLB advances and other borrowings	35.0	40.0	149.8	—	—	224.8
Subordinated notes	—	—	29.5	—	—	29.5
Other liabilities	—	—	—	—	34.5	34.5
Shareholders' equity	13.3	39.9	212.7	106.6	—	372.5
Total liabilities and shareholders' equity	$316.7	$666.8	$1,341.1	$731.0	$ 34.5	$3,090.1
Interest-earning assets	$859.9	$372.6	$1,144.4	$451.2	$ —	$2,828.1
Interest-bearing liabilities	260.7	498.9	948.6	285.7	—	1,993.9
Difference between interest-earning assets and interest-bearing liabilities	$599.2	$(126.3)	$195.8	$165.5	$ —	$834.2
	$599.2	472.9	668.7	834.2		

Cumulative difference between interest earning assets and interest-bearing liabilities					
Cumulative earning assets as a % of cumulative interest bearing liabilities	330 %	162 %	139 %	142 %	142 %

[1] *Loans include portfolio loans and loans held for sale*

The table above indicates that the Corporation is asset-sensitive in the immediate to 90-day time frame and may experience an increase in net interest income during that time period if rates rise. Conversely, if rates decline, net interest income may decline. It should be noted that the gap analysis is only one tool used to measure interest rate sensitivity and should be used in conjunction with other measures such as the interest rate simulation discussed above. The gap analysis measures the timing of changes in rate, but not the true weighting of any specific component of the Corporation's balance sheet. The asset-sensitive position reflected in this gap analysis is similar to the Corporation's position at December 31, 2015.

PROVISION FOR LOAN AND LEASE LOSSES

For the three months ended June 30, 2016, the Corporation recorded a Provision of $445 thousand as compared to $850 thousand for the same period in 2015. The decrease in Provision for the three months ended June 30, 2016 was not only related to the low level of net charge-offs for the quarter, which totaled $254 thousand, but also resulted from improvements in certain loan quality metrics in some of the larger loan portfolio segments. These improvements, which affect the qualitative factors considered in the formulation of the Allowance, were largely responsible for the Provision decrease.

For the six months ended June 30, 2016, the Provision of $1.9 million was a $436 thousand increase from the same period in 2015. A considerable amount of the increase in 2016 was related to the strong loan growth during the first six months of 2016. For the six months ended June 30, 2016, portfolio loans increased by $154.8 million as compared to a $76.8 million for the same period in 2015, excluding the loans acquired in the Continental Merger.

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Asset Quality and Analysis of Credit Risk

As of June 30, 2016, total nonperforming loans and leases decreased by $627 thousand, to $9.6 million, representing 0.40% 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 decrease in nonperforming loans and leases resulted from pay-offs or pay-downs of $2.3 million of loans and leases and the return to performing status of $255 thousand of loans and leases which had been nonperforming as of December 31, 2015. Partially offsetting the decreases in nonperforming loans from December 31, 2015 was the addition during the first and second quarters of 2016 of $2.0 million of new nonperforming loans and leases.

As of June 30, 2016, the Allowance of $17.0 million represented 0.70% of portfolio loans and leases, as compared to $15.9 million, or 0.70% of portfolio loans as of December 31, 2015. The Allowance on originated portfolio loans, as a percentage of originated portfolio loans, was 0.81% as of June 30, 2016 as compared to 0.84% as of December 31, 2015. Loans acquired in mergers are recorded at fair value as of the date of acquisition. This fair value estimate takes into account an estimate of the expected lifetime losses of the acquired loans. As such, an acquired loan will not generally become subject to additional Allowance unless it becomes impaired.

As of June 30, 2016, the Corporation had OREO valued at $784 thousand, as compared to $2.6 million as of December 31, 2015. During the six months ended June 30, 2016, a $1.9 million OREO property acquired from a foreclosure during the fourth quarter of 2015 was sold, resulting in a loss on sale of $76 thousand. There were no sales of OREO during the three months ended June 30, 2016. The balance of OREO as of June 30, 2016 was comprised of five residential properties, four of which are manufactured housing properties acquired in the Continental Merger. All properties are recorded at the lower of cost or fair value less cost to sell.

As of June 30, 2016, the Corporation had $6.8 million of troubled debt restructurings (“TDRs”), of which $5.0 million were in compliance with the modified terms and 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, and were excluded from non-performing loans and leases.

As of June 30, 2016, the Corporation had a recorded investment of $14.5 million of impaired loans and leases which included $6.8 million of TDRs. 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 in accordance with the original terms of the loans and leases. Impaired loans and leases as of December 31, 2015 totaled $14.5 million, which included $6.8 million of TDRs. Refer to Note 5H in the Notes to unaudited 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 proactive with its loan review process, including the engagement of the services of an independent outside loan review firm, which helps identify developing credit issues. Proactive steps that are taken include the procurement of additional collateral (preferably outside the current loan structure) whenever possible and frequent contact with the borrower. The Corporation believes that timely identification of credit issues and appropriate actions early in the process serve to mitigate overall risk of loss.

Nonperforming Assets and Related Ratios

(dollars in thousands)	June 30, 2016	December 31, 2015
Nonperforming Assets:		
Nonperforming loans and leases	$9,617	$10,244
Other real estate owned	784	2,638
Total nonperforming assets	$10,401	$12,882
Troubled Debt Restructures:		
TDRs included in non-performing loans	$1,779	$1,935
TDRs in compliance with modified terms	4,984	4,880
Total TDRs	$6,763	$6,815
Loan and Lease quality indicators:		
Allowance for loan and lease losses to nonperforming loans and leases	177.1 %	154.8 %
Nonperforming loans and leases to total portfolio loans and leases	0.40 %	0.45 %
Allowance for loan and lease losses to total portfolio loans and leases	0.70 %	0.70 %
Nonperforming assets to total loans and leases and OREO	0.43 %	0.56 %
Total portfolio loans and leases	$2,423,821	$2,268,988
Allowance for loan and lease losses	$17,036	$15,857

NON-INTEREST INCOME

Three Months Ended June 30, 2016 Compared to the Same Period in 2015

Non-interest income for the three months ended June 30, 2016 decreased $357 thousand as compared to the same period in 2015. Contributing to this decrease was a $169 thousand decrease in fees for wealth management services, much of which was the result of a shift in the composition of the portfolio, with more of the portfolio being comprised of assets held in lower-yielding fixed-fee accounts as of June 30, 2016, as compared to June 30, 2015 (see tables below). In addition, gain on sale of OREO during the three months ended June 30, 2015 totaled $75 thousand as compared to no gain or loss during the three months ended June 30, 2016. Loss on sale of available for sale investment securities for the second quarter of 2016 totaled $$43 thousand, as compared to a gain on sale during the same period in 2015 of $3 thousand. Partially offsetting these decreases was a $118 thousand increase in gain on sale of loans for the three months ended June 30, 2016 as compared to the same period in 2015.

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Six Months Ended June 30, 2016 Compared to the Same Period in 2015

For the six months ended June 30, 2016, non-interest income decreased $1.9 million as compared to the same period in 2015. The most significant contributors to this decrease were a $442 thousand decrease in fees for wealth management services, an $871 thousand decrease in gain on sale of available for sale investment securities, and a $437 thousand decrease in dividends on FRB and FHLB stocks. The decrease in fees for wealth management services was largely related to the shift on the wealth portfolio discussed in the previous paragraph. The decrease in gain on sale of available for sale investment securities resulted because the $813 thousand gain on sale recognized during the first six months of 2015, primarily related to the sale of available for sale investment securities acquired in the Continental Merger, was not repeated during the six months ended June 30, 2016. The decrease in dividends on bank stocks occurred because the special dividend of $448 thousand issued by FHLB in the first quarter of 2015 was not repeated in 2016. These decreases were partially offset by a $283 thousand increase in insurance revenue during the period.

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 table details 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	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Market value	$4,798,645	$4,759,442	$4,725,173	$4,604,163	$4,927,314
Fixed	4,833,876	4,522,301	3,639,632	3,614,113	3,608,710
	$9,632,521	$9,281,743	$8,364,805	$8,218,276	$8,536,024

The following table details the composition of fees for wealth management services for the periods indicated:

(dollars in thousands)	**For the Three Months Ended:**				
Fee Basis	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Market value	$6,825	$6,464	$ 6,710	$ 6,941	$7,047
Fixed	2,606	2,368	2,285	2,253	2,553
	$9,431	$8,832	$ 8,995	$ 9,194	$9,600

Residential Mortgage Loan Sales

The following table provides supplemental information regarding mortgage loan originations and sales:

	As of or for the Three Months Ended June 30,		**As of or for the Six Months Ended June 30,**	
(dollars in millions)	2016	2015	2016	2015
Residential mortgage loans held in portfolio	$414.9	$381.3	$414.9	$381.3
Mortgage originations	$64.9	$63.3	$117.4	$99.0
Mortgage loans sold:				
Servicing retained	$26.9	$28.2	$52.9	$52.8
Servicing released	5.3	9.3	7.7	11.9
Total mortgage loans sold	$32.2	$37.5	$60.6	$64.7
Percent servicing-retained	83.6 %	75.3 %	87.3 %	81.6 %
Percent servicing-released	16.4 %	24.7 %	12.7 %	18.4 %
Percent of originated mortgage loans sold	49.7 %	59.2 %	51.6 %	65.3 %
Mortgage servicing rights (“MSRs”)	$4.6	$5.0	$4.6	$5.0
Net gain on sale of residential mortgage loans	$0.9	$0.8	$1.6	$1.6
Residential mortgage loans serviced for others[1]	$610.4	$595.4	$610.4	$595.4

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The following table provides details of **other operating income** for the three and six months ended June 30, 2016 and 2015:

(dollars in thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2016	2015	2016	2015
Merchant interchange fees	$321	$324	$729	$621
Commissions and fees	185	251	390	382
Bank-owned life insurance (“BOLI”) income	220	169	465	352
Safe deposit box rentals	95	102	189	196
Other investment income	100	53	102	123
Rental income	33	44	75	91
Miscellaneous other income	222	313	249	579
Other operating income	$1,176	$1,256	$2,199	$2,344

NON-INTEREST EXPENSE

Three Months Ended June 30, 2016 Compared to the Same Period in 2015

Non-interest expense for the three months ended June 30, 2016 increased $277 thousand, to $26.3 million, as compared to $26.0 million for the same period in 2015. The items contributing to this increase included a $1.1 million increase in salaries and wages, related to annual increases and incentive accruals, a $407 thousand increase in furniture, fixtures and equipment expense largely related to the infrastructure improvements completed in 2015 that began depreciating in 2016 and a $621 thousand increase in impairment of MSRs. This impairment was the result of increased expectations for the continuation of the low interest rate environment, partially driven by international events, which caused interest rates to fall at the end of the second quarter of 2016. Partially offsetting these increases was a $1.3 million decrease in due diligence, merger-related and merger integration costs which were primarily related to the Continental Merger which was wrapped up by the end of 2015.

Six Months Ended June 30, 2016 Compared to the Same Period in 2015

Non-interest expense for the six months ended June 30, 2016 decreased $2.1 million, with the largest contributors to the decrease being the $3.8 million decrease in due diligence, merger-related and merger integration costs and a $1.5 million decrease in other operating expense detailed in the table below. These decreases were partially offset by increases of $2.0 million in salary and wages, $814 thousand in furniture, fixtures and equipment expense and $631 thousand in impairment of MSRs. These items increased for the same reasons discussed in the preceding paragraph.

The following table provides details of **other operating expenses** for the three and six months ended June 30, 2016 and 2015:

(dollars in thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2016	2015	2016	2015
Debt prepayment penalties	$—	$—	$—	$177
Deferred compensation trust expense	197	93	(16)	206
Director fees	161	158	346	309
Dues and subscriptions	116	122	217	222
FDIC insurance	388	368	822	742
Insurance	203	188	422	376
Loan processing	544	269	867	621
Miscellaneous	(154)	504	6	1,090
MSR amortization	181	149	317	263
OREO impairment	—	57	—	139
Other taxes	22	20	31	42
Outsourced services	147	105	250	210
Portfolio maintenance	133	89	184	190
Postage	152	132	293	282
Stationary and supplies	112	138	265	325
Swap termination penalties	—	—	—	343
Telephone	432	371	831	769
Temporary help and recruiting	213	291	478	525
Travel and entertainment	196	170	394	324
Other operating expense	$3,043	$3,224	$5,707	$7,155

INCOME TAXES

Income tax expense for the three and six months ended June 30, 2016 was $4.8 million and $9.2 million, respectively, as compared to $4.3 million and $8.4 million for the same respective periods in 2015. The tax expense recorded reflects an increase in the effective tax rate from 34.6% for the second quarter of 2015 to 35.1% for the second quarter of 2016. The effective tax rate for the six months ended June 30, 2015 and 2016 were unchanged at 34.9%.

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BALANCE SHEET ANALYSIS

Total assets as of June 30, 2016 of $3.09 billion increased $59.1 million from $3.03 billion as of December 31, 2015.

Loans and Leases

The table below compares the portfolio loans and leases outstanding at June 30, 2016 to December 31, 2015:

	June 30, 2016		December 31, 2015		Change	
(dollars in thousands)	Balance	Percent of Portfolio	Balance	Percent of Portfolio	Amount	Percent
Commercial mortgage	$1,055,934	43.6 %	$964,259	42.5 %	$91,675	9.5 %
Home equity lines & loans	202,989	8.4 %	209,473	9.2 %	(6,484)	(3.1)%
Residential mortgage	414,863	17.1 %	406,404	17.9 %	8,459	2.1 %
Construction	133,313	5.5 %	90,421	4.0 %	42,892	47.4 %
Commercial and industrial	538,684	22.2 %	524,515	23.1 %	14,169	2.7 %
Consumer	21,561	0.9 %	22,129	1.0 %	(568)	(2.6)%
Leases	56,477	2.3 %	51,787	2.3 %	4,690	9.1 %
Total portfolio loans and leases	2,423,821	100.0 %	2,268,988	100.0 %	154,833	6.8 %
Loans held for sale	11,882		8,987		2,895	32.2 %
Total loans and leases	$2,435,703		$2,277,975		$157,728	6.9 %

Cash and Investment Securities

As of June 30, 2016, liquidity remained strong as the Corporation had $16.9 million of cash balances at the Federal Reserve and $3.6 million in other interest-bearing accounts, along with significant borrowing capacity as discussed in the “Liquidity” section below.

Investment securities available for sale as of June 30, 2016 totaled $365.5 million, as compared to $349.0 million as of December 31, 2015. The increase was primarily related to a $27.7 million increase in mortgage-backed securities, partially offset by a decreases of $15.4 million in U.S. government agency securities.

Deposits, Borrowings and Subordinated Debt

Deposits and borrowings as of June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016		December 31, 2015		Change	
(dollars in thousands)	Balance	Percent of Deposits	Balance	Percent of Deposits	Amount	Percent
Interest-bearing checking	$333,425	13.8 %	$338,861	15.0 %	$(5,436)	(1.6)%
Money market	718,144	29.8 %	749,726	33.3 %	(31,582)	(4.2)%
Savings	217,877	9.1 %	187,299	8.3 %	30,578	16.3 %
Wholesale non-maturity deposits	58,690	2.4 %	67,717	3.0 %	(9,027)	(13.3)%
Wholesale time deposits	113,274	4.7 %	53,185	2.4 %	60,089	113.0 %
Retail time deposits	279,067	11.6 %	229,253	10.2 %	49,814	21.7 %
Interest-bearing deposits	1,720,477	71.4 %	1,626,041	72.2 %	94,436	5.8 %
Non-interest-bearing deposits	689,214	28.6 %	626,684	27.8 %	62,530	10.0 %
Total deposits	$2,409,691	100.0 %	$2,252,725	100.0 %	$156,966	7.0 %

	June 30, 2016		December 31, 2015		Change	
(dollars in thousands)	Balance	Percent of Borrowings	Balance	Percent of Borrowings	Amount	Percent
Short-term borrowings	$19,119	7.0 %	$94,167	24.5 %	$(75,048)	(79.7)%
Long-term FHLB advances and other borrowings	224,802	82.2 %	260,146	67.8 %	(35,344)	(13.6)%
Subordinated notes	29,505	10.8 %	29,479	7.7 %	26	0.1 %
Borrowed funds	$273,426	100.0 %	$383,792	100.0 %	$(110,366)	(28.8) %

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Capital

Consolidated shareholder's equity of the Corporation was $372.5 million, or 12.1% of total assets as of June 30, 2016, as compared to $365.7 million, or 12.1% of total assets as of December 31, 2015. The following table presents the Corporation's and Bank's capital ratios and the minimum capital requirements to be considered "Well Capitalized" by regulators as of June 30, 2016 and December 31, 2015:

	Actual		Minimum to be Well Capitalized	
(dollars in thousands)	Amount	Ratio	Amount	Ratio
June 30, 2016:				
Total (Tier II) capital to risk weighted assets				
Corporation	$304,097	12.35 %	$246,232	10.00 %
Bank	286,223	11.65 %	245,685	10.00 %
Tier I capital to risk weighted assets				
Corporation	257,234	10.45 %	196,926	8.00 %
Bank	268,865	10.94 %	196,611	8.00 %
Common equity Tier I capital to risk weighted assets				
Corporation	257,234	10.45 %	123,078	5.00 %
Bank	268,865	10.94 %	122,882	5.00 %
Tier I Leverage ratio (Tier I capital to total quarterly average assets)				
Corporation	257,234	8.65 %	193,297	6.50 %
Bank	268,865	9.06 %	192,894	6.50 %
Tangible common equity to tangible assets(1)				
Corporation	245,577	8.29 %	—	—
Bank	260,210	8.79 %	—	—
December 31, 2015:				
Total (Tier II) capital to risk weighted assets				
Corporation	$302,236	12.61 %	$239,680	10.00 %
Bank	257,716	10.78 %	239,069	10.00 %
Tier I capital to risk weighted assets				
Corporation	256,900	10.72 %	191,716	8.00 %
Bank	241,859	10.12 %	191,193	8.00 %
Common equity Tier I capital to risk weighted assets				
Corporation	256,900	10.72 %	119,823	5.00 %
Bank	241,859	10.12 %	119,496	5.00 %
Tier I leverage ratio (Tier I capital to total quarterly average assets)				
Corporation	256,900	9.02 %	185,127	6.50 %
Bank	241,859	8.51 %	184,734	6.50 %
Tangible common equity to tangible assets(1)				
Corporation	237,043	8.17 %	—	—

Bank	224,146	7.74 %	—	—

[1] There is no official regulatory guideline for the tangible common equity to tangible asset ratio.

Both the Corporation and the Bank exceed the capital levels to be considered "well capitalized" that are required by their respective regulators at the end of each period presented. The capital ratios as of June 30, 2016 for the Corporation have decreased from their December 31, 2015 levels, primarily as a result of the increase in risk-weighted assets during the first six months of 2016. The loan growth during the first half of 2016 accounted for the majority of the risk-weighted asset growth, as cash balances that were present as of December 31, 2015, which were risk-weighted at zero percent, were replaced largely by loans which are risk-weighted between 50% and 100%. In addition, the Corporation repurchased $8.1 million of treasury stock and issued dividends of $6.8 million during the six months ended June 30, 2016, further reducing capital. These reductions were partially offset by the $17.2 million increase in retained earnings from net income for the first half of 2016. The capital levels of the Bank, which were affected by the same factors which reduced the Corporation's capital levels, were increased as a result of the $15 million downstream of capital from the Corporation, which occurred during the first quarter of 2016. Neither the Corporation nor the Bank is under any agreement with regulatory authorities which would have a material effect on liquidity, capital resources or operations of the Corporation or the Bank.

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Liquidity

The Corporation’s liquidity position is managed on a daily basis as part of the daily settlement function and continuously as part of the formal asset liability management process. The Bank’s liquidity is maintained by managing its core deposits as the primary source, purchasing federal funds, selling loans in the secondary market, borrowing from the FHLB and the Federal Reserve Bank, and purchasing and issuing wholesale certificates of deposit as its secondary sources.

Unused availability is detailed on the following table:

(dollars in millions)	Available Funds as of June 30, 2016	Percent of Total Borrowing Capacity		Available Funds as of December 31, 2015	Percent of Total Borrowing Capacity		Dollar Change	Percent Change	
Federal Home Loan Bank of Pittsburgh	$933.4	78.6	%	$ 824.6	72.4	%	$ 108.8	13.2	%
Federal Reserve Bank of Philadelphia	137.8	100.0	%	131.0	100.0	%	6.8	5.2	%
Fed Funds Lines (six banks)	79.0	100.0	%	34.0	53.1	%	45.0	132.4	%
Revolving line of credit with correspondent bank	5.0	100.0	%	5.0	100.0	%	0	0	%
	$1,155.2	81.9	%	$ 994.6	75.1	%	$ 160.6	16.2	%

Quarterly, the ALCO reviews the Corporation’s liquidity needs and reports its findings to the Risk Management Committee of the Corporation’s Board of Directors.

The Corporation has an agreement with CDC to provide up to $5 million, excluding accrued interest, of money market deposits at an agreed upon rate currently at 0.45%. The Corporation had $1.0 million in balances, including accrued interest, as of June 30, 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 $40 million, excluding accrued 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 $33.9 million in balances as of June 30, 2016 under this program.

The Corporation continually evaluates the cost and mix of its retail and wholesale funding sources relative to earning assets and expected future earning-asset growth. The Corporation believes that with its current branch network, along with the available borrowing capacity at FHLB and other sources, it has sufficient capacity available to fund expected earning-asset growth.

Discussion of Segments

The Corporation has two principal segments as defined by FASB ASC 280, "*Segment Reporting.*" The segments are Banking and Wealth Management (see Note 10 in the accompanying Notes to Unaudited Consolidated Financial Statements).

The Wealth Management Segment, as discussed in the Non-Interest Income section above, recorded a pre-tax segment profit ("PTSP") of $3.4 million for the three months ended June 30, 2016, as compared to PTSP of $4.2 million for the same period in 2015. The Wealth Management Segment provided 24.9% of the Corporation's pre-tax profit for the three months ended June 30, 2016 as compared to 33.9% for the same period in 2015. The $149 thousand decrease in revenue for the segment and the $625 thousand increases in operating expenses, primarily in salaries and wages and other operating expenses, accounted for the decrease in percentage of pre-tax profit contributed.

For the six months ended June 30, 2016, the Wealth Management Segment recorded a PTSP of $7.0 million, as compared to $8.3 for the same period in 2015. As a percentage of consolidated PTSP, the Wealth Management Segment provided 26.6% for the six months ended June 30, 2016 as compared to 34.5% for the same period in 2015. The primary driver for the decrease was related to expense increases, with revenues remaining relatively flat. The shift in the composition of the wealth portfolio discussed in the non-interest income section above is largely responsible for the relatively unchanged revenue levels.

The Banking Segment recorded a PTSP of $10.3 million and $19.4 million for the three and six months ended June 30, 2016, respectively, as compared to PTSP of $8.2 million and $15.7 million for the same respective periods in 2015. The Banking Segment provided 75.1% and 73.4% of the Corporation's pre-tax profit for the three and six months ended June 30, 2016, respectively, as compared to 66.1% and 65.5% for the same respective periods in 2015.

Off Balance Sheet Risk

The Corporation is a party to financial instruments with off-balance sheet risk 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.

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. Total commitments to extend credit at June 30, 2016 were $653.3 million, as compared to $634.2 million at December 31, 2015.

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 Bank's obligation under standby letters of credit at June 30, 2016 amounted to $30.0 million, as compared to $14.6 million at December 31, 2015.

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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. 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.

Contractual Cash Obligations of the Corporation as of June 30, 2016:

(dollars in millions)	Total	Within 1 Year	2 – 3 Years	4 – 5 Years	After 5 Years
Deposits without a stated maturity	$2,017.4	$2,017.4	$—	$—	$—
Wholesale and retail time deposits	392.3	249.1	134.8	8.4	—
Short-term borrowings	19.1	19.1	—	—	—
Long-term FHLB advances and other borrowings	224.8	60.0	131.6	33.2	—
Operating leases	33.7	4.3	8.2	6.7	14.5
Purchase obligations	8.1	2.3	2.9	2.9	—
Total	$2,695.4	$2,352.2	$277.5	$51.2	$14.5

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.

Effects 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.

Special Cautionary Notice Regarding Forward Looking Statements

Certain of the statements contained in this Quarterly Report on Form 10-Q, including, without limitation, this Item 2 of Part I, 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, mortgage servicing rights, the effect of changes in accounting standards, and market and pricing trends loss. The words “may”, “would”, “could”, “will”, “likely”, “expect,” “anticipate,” “intend”, “estimate”, “plan”, “forecast”, “project” 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:

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, the real estate market, 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;

any future downgrades in the credit rating of the U.S. Government and federal agencies;

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

results of examinations by the Federal Reserve Board, including the possibility that the Federal Reserve Board may, among other things, require us to increase our allowance for loan losses or to write down assets;

changes in accounting requirements or interpretations;

changes in existing statutes, regulatory guidance, legislation or judicial decisions that adversely affect our business, including changes in federal income tax, state income taxes, without limitation, the Pennsylvania Bank Shares Tax or other tax regulations;

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, consumer 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 and such competitors offering banking products and services by mail, telephone, computer and the Internet;

any extraordinary events (such as natural disasters, acts of terrorism, wars or political conflicts);

the Corporation's need for capital;

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

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

differences in the actual financial results, cost savings, and revenue enhancements associated with our acquisitions;

changes in consumer and business spending, borrowing and savings habits and demand for financial services in our 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, sell and service residential mortgage loans;

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

the Corporation's ability to retain key members of the senior management team;

the ability of key third-party providers to perform their obligations to the Corporation and the Bank;

technological changes being more difficult or expensive than anticipated;

material differences in the actual financial results of the Corporation's 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; and

the Corporation's success in managing the risks involved in the foregoing.

All written or oral forward-looking statements attributed to the Corporation and the Bank are expressly qualified in their entirety by use of the foregoing cautionary statements. All forward-looking statements included in this Quarterly Report and incorporated documents are based upon the Corporation's beliefs and assumptions as of the date of this Quarterly 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 Quarterly Report or incorporated documents might not occur and you should not put undue reliance on any forward-looking statements.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risks

See the discussion of quantitative and qualitative disclosures about market risks in the Corporation's 2015 Annual Report, as updated by the disclosure in "Management's Discussion and Analysis of Results of Operations – Interest Rate Summary," "– Summary of Interest Rate Simulation," and "– Gap Analysis" in this quarterly report on Form 10-Q.

ITEM 4. Controls and Procedures

As of the end of the period covered by this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer, Francis J. Leto, and Chief Financial Officer, Michael W. Harrington, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective as of June 30, 2016.

There were no changes in the Corporation's internal controls over financial reporting during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II OTHER INFORMATION.

ITEM 1. Legal Proceedings.

None.

ITEM 1A. Risk Factors

None.

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

Share Repurchase

The following table presents the shares repurchased by the Corporation during the second quarter of 2016 [(1)] :

Period	**Total Number of Shares Purchased[(2)(3)]**	**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**
April 1, 2016 – April 30, 2016	2,355	$ 27.73	—	189,300
May 1, 2016 – May 31, 2016	1,384	$ 27.89	—	189,300
June 1, 2016 – June 30, 2016	—	$ —	—	189,300
Total	3,739	$ 27.79	—	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 June 30, 2016, no repurchases occurred under the 2015 Program. As of June 30, 2016, the maximum number of shares remaining authorized for repurchase under the 2015 Program was 189,300.

(2) On April 1, 2016, 2,355 shares were purchased by the Corporation’s deferred compensation plans through open market transactions.

(3) On May 15, 2016, 1,384 shares were purchased to cover statutory tax withholding requirements on vested stock awards for certain officers of the Corporation

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures.
Not applicable.

ITEM 5. Other Information

None.

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ITEM 6. Exhibits

Exhibit No.	Description and References
3.1	Amended and Restated By-Laws, effective November 20, 2007, incorporated by reference to Exhibit 3.2 of the Corporation's Form 8-K filed with the SEC on November 21, 2007
3.2	Amended and Restated Articles of Incorporation, effective November 21, 2007, incorporated by reference to Exhibit 3.1 of the Corporation's Form 8-K filed with the SEC on November 21, 2007
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith
101.INS XBRL	Instance Document, filed herewith
101.SCH XBRL	Taxonomy Extension Schema Document, filed herewith
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document, filed herewith
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document, filed herewith
101.LAB XBRL	Taxonomy Extension Label Linkbase Document, filed herewith
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document, filed herewith

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Bryn Mawr Bank Corporation
Date: August 5, 2016	By: /s/ Francis J. Leto
	Francis J. Leto **President & Chief Executive Officer** **(Principal Executive Officer)**
Date: August 5, 2016	By: /s/ Michael W. Harrington
	Michael W. Harrington **Chief Financial Officer** **(Principal Financial and Accounting Officer)**

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Form 10-Q

Index to Exhibits

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