

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
(State or other jurisdiction of**

**23-2434506
(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

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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

FORM 10-Q

QUARTER ENDED June 30, 2016

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Table Of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****Consolidated Balance Sheets**

<i>(dollars in thousands)</i>	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

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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.

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

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2016	2015	2016	2015
<i>(dollars in thousands, except per share data)</i>				
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

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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.

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

<i>(dollars in thousands)</i>	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	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.

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

<i>(dollars in thousands)</i>	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.

Table Of Contents**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.

Table Of Contents**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,	
	2016	2015	2016	2015
<i>(dollars in thousands except per share data)</i>				
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:

<i>(dollars in thousands)</i>	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:

<i>(dollars in thousands)</i>	Original	Adjustments to	Final
	Estimates	Estimates	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 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:

	Three Months Ended June 30, 20122015	Six Months Ended June 30, 20122015
<i>(dollars in thousands)</i>		
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