BRYN MAWR BANK CORP
Form 10-K
March 15, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the transition period from______to______

Commission file number 0-15261.

BRYN MAWR BANK CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2434506**
(State of other jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification Number)**

801 Lancaster Avenue, Bryn Mawr, Pennsylvania	**19010**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ¨ No x

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

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 x No ¨

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

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

Large Accelerated Filer	¨	Accelerated Filer	x
Non-Accelerated Filer	¨	Smaller Reporting Company	¨

Indicate by checkmark whether the Registrant is a shell company (as defined by Rule 126-2 of the Exchange Act): Yes ¨ No x

The aggregate market value of shares of common stock held by non-affiliates of Registrant (including fiduciary accounts administered by affiliates) was $271,961,320 on June 30, 2012 based on the price at which our common stock was last sold on that date.*

As of March 4, 2013, there were 13,484,691 shares of common stock outstanding.

Documents Incorporated by Reference: Portions of the Definitive Proxy Statement of Registrant to be filed with the Commission pursuant to Regulation 14A with respect to the Registrant s Annual Meeting of Shareholders to be held on April 25, 2013 (2013 Proxy Statement), as indicated, are incorporated by reference in Part III hereof.

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

Form 10-K

Bryn Mawr Bank Corporation

Index

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements contained in this report and the documents incorporated by reference herein may constitute forward-looking statements for the purposes of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended, and may involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Bryn Mawr Bank Corporation (the Corporation) to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements include statements with respect to the Corporation s financial goals, business plans, business prospects, credit quality, credit risk, reserve adequacy, liquidity, origination and sale of residential mortgage loans, mortgage servicing rights, the effect of changes in accounting standards, and market and pricing trends loss. The words The words may , would , could , will , likely , expect, anticipate, intend , estimate , plan , forecast , project and believe and similar expressions are intended to identify such forward-looking statements. The Corporation s actual results may differ materially from the results anticipated by the forward-looking statements due to a variety of factors, including without limitation:

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;

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

the Corporation s 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;

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;*
- *the Corporation s success in managing the risks involved in the foregoing.*

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

PART I

ITEM 1. BUSINESS

GENERAL

The Bryn Mawr Trust Company (the Bank) received its Pennsylvania banking charter in 1889 and is a member of the Federal Reserve System. In 1986, Bryn Mawr Bank Corporation (the Corporation) was formed and on January 2, 1987, the Bank became a wholly-owned subsidiary of the Corporation. The Bank and Corporation are headquartered in Bryn Mawr, Pennsylvania, a western suburb of Philadelphia. The Corporation and its subsidiaries offer a full range of personal and business banking services, consumer and commercial loans, equipment leasing, mortgages, insurance and wealth management services, including investment management, trust and estate administration, retirement planning, custody services, and tax planning and preparation from 19 full-service branches and seven Life Care Community offices throughout Montgomery, Delaware and Chester counties of Pennsylvania. The Corporation s common stock trades on the NASDAQ Stock Market (NASDAQ) under the symbol BMTC.

The goal of the Corporation is to become the 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), Federal Deposit Insurance Corporation (FDIC), the Federal Reserve and the Pennsylvania Department of Banking.

WEBSITE DISCLOSURES

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

OPERATIONS

Bryn Mawr Bank Corporation

The Corporation has no active staff as of December 31, 2012. The Corporation holds the stock of the Bank. Additionally, the Corporation performs several functions including shareholder communications, shareholder recordkeeping, the distribution of dividends and the periodic filing of reports and payment of fees to NASDAQ, the SEC and other regulatory agencies.

As of December 31, 2012, the Corporation and its subsidiaries had 390 full time and 42 part time employees, totaling 411 full time equivalent staff.

ACTIVE SUBSIDIARIES OF THE CORPORATION

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

Lau Associates

Lau Associates LLC, acquired in July of 2008, is a nationally recognized independent, family office serving high net worth individuals and families, with special expertise in planning intergenerational inherited wealth. Lau

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Associates employees numbered thirteen full time and one part time as of December 31, 2012, and are included in the Corporation s employment numbers. Lau Associates LLC is a wholly-owned subsidiary of the Corporation.

The Bryn Mawr Trust Company of Delaware

The Bryn Mawr Trust Company of Delaware (BMTC-DE) began operations as a limited purpose trust company in the fourth quarter of 2008. BMTC-DE is located in Greenville, DE and has the ability to be named and serve as a corporate fiduciary under Delaware law. BMTC-DE employed one full-time and one part time employee as of December 31, 2012. BMTC-DE employees are included in the Corporation s employment numbers. Being able to serve as a corporate fiduciary under Delaware law is advantageous as Delaware statutes are widely recognized as being favorable with respect to the creation of tax-advantaged trust structures, LLCs and related wealth transfer vehicles for families and individuals throughout the United States. BMTC-DE is a wholly-owned subsidiary of the Corporation.

The Bryn Mawr Trust Company

The Bank is engaged in commercial and retail banking business, providing basic banking services, including the acceptance of demand, time and savings deposits and the origination of commercial, real estate and consumer loans and other extensions of credit including leases. The Bank also provides a full range of wealth management services including trust administration and other related fiduciary services, custody services, investment management and advisory services, employee benefit account and IRA administration, estate settlement, tax services, financial planning and brokerage services. As of December 31, 2012, the market value of assets under management, administration, supervision and asset management/ brokerage by the Bank s Wealth Management Division was $6.663 billion.

The Bank presently has 19 full-service branch offices and seven Life Care Community locations. See the section titled COMPETITION later in this item for additional information.

ACTIVE SUBSIDIARIES OF THE BANK

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

Insurance Counsellors of Bryn Mawr, Inc.

Insurance Counsellors of Bryn Mawr, Inc. (ICBM) began operations in February 1998 as a wholly-owned subsidiary of the Bank. ICBM is a full-service insurance agency, through which the Bank offers insurance and related products and services to its customer base. This includes casualty, property and allied insurance lines, as well as life insurance, annuities, medical insurance and accident and health insurance for groups and individuals.

ICBM utilizes six licensed insurance agents and ICBM employees are included in the Corporation s employment numbers above.

BMT Settlement Services, Inc.

BMT Settlement Services, Inc. (BMTS) began operations in February 2002. BMTS is a limited partner in Bryn Mawr Settlement Services, LP (the Limited Partnership), with Commonwealth Land Transfer Company, to provide title search and abstract services to Bank customers. Under the terms of the Limited Partnership s partnership agreement, BMTS receives seventy percent of the profits of the Limited Partnership, after expenses. BMTS is a wholly-owned subsidiary of the Bank.

BMTS s primary market area is located in southeastern Pennsylvania. BMTS is housed in the main office of the Bank, located at 801 Lancaster Avenue, Bryn Mawr, PA 19010. BMTS had no employees as of December 31, 2012.

BMT Mortgage Services, Inc.

BMT Mortgage Services, Inc. (BMTM) began operations in February, 2006. BMTM is a member in BMT Mortgage Company, LLC, which was established in 2006 to provide mortgage services to customers of the Keller Williams Bryn Mawr, PA office. Under the terms of the operating agreement, BMTM has a 40% interest in BMT Mortgage Company, LLC, will perform certain accounting and administrative functions, and will process certain mortgage applications for a fee. BMTM is a wholly-owned subsidiary of the Bank.

Bryn Mawr Equipment Finance, Inc.

Bryn Mawr Equipment Finance, Inc. (BMEF) (formerly BMT Leasing, Inc.), a Delaware corporation registered to do business in Pennsylvania, began operations in September 2006. BMEF is a small-ticket equipment financing company servicing customers nationwide from its Bryn Mawr location. BMEF is a wholly-owned subsidiary of the Bank and had eight employees as of December 31, 2012. BMEF employees are included in the Corporation s employment numbers above. BMEF changed its name from BMT Leasing, Inc. in the first quarter of 2012.

BUSINESS COMBINATIONS

The Corporation and its subsidiaries engaged in the following business combinations since January 1, 2008

First Bank of Delaware

On November 17, 2012 the Corporation acquired $70.3 million of deposits, $76.6 million of loans and a branch location from First Bank of Delaware (FBD). The cash consideration paid by the Corporation was $10.6 million.

Davidson Trust Company

On May 25, 2012, the Corporation acquired the Davidson Trust Company (DTC) for cash and contingent cash consideration of $10.5 million. The acquisition of DTC increased the Corporation wealth management assets under management by approximately $1.0 billion.

Private Wealth Management Group of the Hershey Trust Company

On May 27, 2011, the Corporation acquired the Private Wealth Management Group of the Hershey Trust Company (PWMG) for stock, cash and contingent cash consideration of $18.4 million. The acquisition of DTC increased the Corporation wealth management assets under management by approximately $1.1 billion.

First Keystone Financial Inc.

On July 1, 2010, the merger of First Keystone Financial, Inc. (FKF) with and into the Corporation and the two step merger of FKF s wholly-owned subsidiary, First Keystone Bank with and into the Bank, were completed. The 85% stock and 15% cash transaction was valued at $31.3 million and increased the assets of the corporation by $490 million.

Lau Associates

On July 15, 2008, the Corporation acquired JNJ Holdings LLC (JNJ), Lau Associates LLC (Lau) and Lau Professional Services LLC (Lau Professional and together with Lau and JNJ, Lau Associates). Lau Associates was a nationally recognized independent, family office serving high net worth individuals and families, with special expertise in planning intergenerational inherited wealth. The cash and contingent cash consideration paid totaled $15.2 million. The acquisition of Lau Associates increased the Corporation s wealth management assets under management by approximately $500 million.

SOURCES OF THE CORPORATION S REVENUE

Continuing Operations

See Note 29, Segment Information, in the Notes to the Consolidated Financial Statements located in this Annual Report on Form 10-K for additional information. The Corporation had no discontinued operations in 2010, 2011 or 2012.

FINANCIAL INFORMATION ABOUT SEGMENTS

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

COMPETITION

The Corporation and its subsidiaries, including the Bank, compete for deposits, loans and wealth management services in Delaware, Montgomery, Chester and Philadelphia counties in southeastern Pennsylvania and New Castle county in Delaware. The Corporation has a significant presence in the affluent Philadelphia suburbs along the Route 30 corridor, also known as the Main Line . The Corporation has 19 full-service branches and seven Life Care Community offices.

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

The Corporation is able to compete with the other firms because of its consistent level of customer service, excellent reputation, professional expertise, full product line, and its competitive rates and fees. However, there are several negative factors relative to the Corporation s ability to compete with large institutions such as its limited number of locations, smaller advertising budget, lower technology budget, ability to spread out fixed costs and other lack-of-scale type disadvantages.

The acquisition of Lau Associates in July 2008 and the formation of BMTC-DE allowed the Corporation to establish a presence in the State of Delaware, where it competes for wealth management business. The November 2012 acquisition of certain loan and deposit accounts and a branch location from First Bank of Delaware enabled the Corporation to further expand its banking segment in the state of Delaware by establishing a full-service branch along the Route 202 corridor.

The acquisition FKF in 2010 expanded the Corporation s footprint significantly into Delaware County, Pennsylvania, and the acquisition of PWMG in 2011 enabled the Wealth Management Division to extend into central Pennsylvania by continuing to operate the former PWMG offices located in Hershey, Pennsylvania. The May 2012 acquisition of DTC has allowed the Corporation to further expand its range of services and bring deeper market penetration in our core market area.

In addition, BMEF competes on a national level for its leasing customers.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

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

SUPERVISION AND REGULATION

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

Bank Holding Company Regulation

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

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

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

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

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

Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to each of its subsidiary banks and to commit resources, including capital funds during periods of financial stress, to support each such bank. Consistent with its source of strength policy for subsidiary banks, the Federal Reserve Board has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fund fully the dividends, and the prospective rate of earnings retention appears to be consistent with the company s capital needs, asset quality and overall financial condition.

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

Federal Reserve Board and Pennsylvania Department of Banking Securities Regulations

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

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

The regulations of the Department of Banking restrict the amount of dividends that can be paid to the Corporation by the Bank. Payment of dividends is restricted to the amount of the Bank s 2013 net income plus its net retained earnings for the previous two years. As of December 31, 2012, this amount was approximately $18.6 million plus net income earned in 2013. However, the amount of dividends paid by the Bank cannot reduce capital levels below levels that would cause the Bank to be less than adequately capitalized. The payment of dividends by the Bank to the Corporation is the source on which the Corporation currently depends to pay dividends to its shareholders.

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

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

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

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

Deposit Insurance Assessments

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

In addition to deposit insurance assessments, banks are subject to assessments to pay the interest on Financing Corporation bonds. The Financing Corporation was created by Congress to issue bonds to finance the resolution of failed thrift institutions. The FDIC sets the Financing Corporation assessment rate every quarter. The Financing Corporation assessment for the fourth quarter of 2012 was an annual rate of 0.66 basis points, which resulted in approximately $106 thousand FICO assessment payment by the Bank in 2012.

Government Monetary Policies

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

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

Safety and Soundness

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

Capital Adequacy

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

Minimum Capital Ratios. The risk-based guidelines require all banks to maintain two risk-weighted assets ratios. The first is a minimum ratio of total capital (Tier 1 and Tier 2 capital) to risk-weighted assets equal to 8.00%; the second is a minimum ratio of Tier 1 capital to risk-weighted assets equal to 4.00%. Assets are assigned to five risk categories, with higher levels of capital being required for the categories perceived as representing greater risk. In making the calculation, certain intangible assets must be deducted from the capital base. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets.

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

The leverage ratio rules require banks which are rated the highest in the composite areas of capital, asset quality, management, earnings, liquidity and sensitivity to market risk to maintain a ratio of Tier 1 capital to adjusted total assets (equal to the bank s average total assets as stated in its most recent quarterly Call Report filed with its primary federal banking regulator, minus end-of-quarter intangible assets that are deducted from Tier 1 capital) of not less than 3.00%. For banks which are not the most highly rated, the minimum leverage ratio will range from 4.00% to 5.00%, or higher at the discretion of the bank s primary federal regulator, and is required to be at a level commensurate with the nature of the level of risk of the bank s condition and activities.

For purposes of the capital requirements, Tier 1 or core capital is defined to include common stockholders equity and certain noncumulative perpetual preferred stock and related surplus. Tier 2 or qualifying supplementary capital is defined to include a bank s allowance for loan and lease losses up to 1.25% of risk-weighted assets, plus certain types of preferred stock and related surplus, certain hybrid capital instruments and certain term subordinated debt instruments.

The Basel Committee on Banking Supervision (the Basel Committee) released a comprehensive list of proposals for changes to capital, leverage, and liquidity requirements for banks in December 2009 (commonly referred to as Basel III). In July 2010, the Basel Committee announced the design for its capital and liquidity reform proposals.

In September 2010, the oversight body of the Basel Committee announced minimum capital ratios and transition periods providing: (i) the minimum requirement for the Tier 1 common equity ratio will be increased from the current 2.0% level to 4.5% (to be phased in by January 1, 2015); (ii) the minimum requirement for the Tier 1 capital ratio will be increased from the current 4.0% to 6.0% (to be phased in by January 1, 2015); (iii) an additional 2.5% of Tier 1 common equity to total risk-weighted assets (to be phased in between January 1, 2016 and January 1, 2019; and (iv) a minimum leverage ratio of 3.0% (to be tested starting January 1, 2013). The revised capital requirements also narrow the definition of capital, excluding instruments that no longer qualify as

Tier 1 common equity as of January 1, 2013, and phasing out other instruments over several years. It is unclear how U.S. banking regulators will define well-capitalized in their implementation of Basel III.

The liquidity proposals under Basel III include: (i) a liquidity coverage ratio (to become effective January 1, 2015); (ii) a net stable funding ratio (to become effective January 1, 2018); and (iii) a set of monitoring tools for banks to report minimum types of information to their regulatory supervisors.

In November 2012, the Federal Reserve delayed the January 2013 effective date of Basel III s proposed bank capital buffer rules, and did not provide a substitute date for effectiveness. This U.S. Regulator approved proposal would substantially amend the regulatory risk-based capital rules applicable to the Corporation and the Bank. The proposed rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act .

Many of the details of the new framework related to minimum capital levels and minimum liquidity requirements in the Basel Committee s proposals will remain uncertain until the final release is issued later this year. Implementation of the final provisions of Basel III will require implementing regulations and guidelines by U.S. banking regulators. Implementation of these new capital and liquidity requirements has created significant uncertainty with respect to the future liquidity and capital requirements for financial institutions. Therefore, we are not able to predict at this time the content of liquidity and capital guidelines or regulations that may be adopted by regulatory agencies or the impact that any changes in regulation may have on the Corporation and the Bank.

Prompt Corrective Action

Federal banking law mandates certain prompt corrective actions, which Federal banking agencies are required to take, and certain actions which they have discretion to take, based upon the capital category into which a Federally regulated depository institution falls. Regulations have been adopted by the Federal bank regulatory agencies setting forth detailed procedures and criteria for implementing prompt corrective action in the case of any institution that is not adequately capitalized. Under the rules, an institution will be deemed to be adequately capitalized or better if it exceeds the minimum Federal regulatory capital requirements. However, it will be deemed undercapitalized if it fails to meet the minimum capital requirements, significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0%, or a leverage ratio that is less than 3.0%, and critically undercapitalized if the institution has a ratio of tangible equity to total assets that is equal to or less than 2.0%. The rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by its holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on the payment of dividends, a limitation on asset growth and expansion, and in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the payment of certain management fees to any controlling person . Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including increased reporting burdens and regulatory monitoring, a limitation on the institution s ability to make acquisitions, open new branch offices, or engage in new lines of business, obligations to raise additional capital, restrictions on transactions with affiliates, and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed to be critically undercapitalized and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership. The Bank is currently regarded as well capitalized for regulatory capital purposes. See Note 26 in the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for more information regarding the Bank s and Corporation s regulatory capital ratios.

Gramm-Leach Bliley Act

The Gramm-Leach-Bliley Act (GLB Act) repealed provisions of the Glass-Steagall Act, which prohibited commercial banks and securities firms from affiliating with each other and engaging in each other s businesses.

Thus, many of the barriers prohibiting affiliations between commercial banks and securities firms have been eliminated.

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

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

Community Reinvestment Act

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

Privacy of Consumer Financial Information

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

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

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

Consumer Protection Rules Sale of Insurance Products

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

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

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

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

Sarbanes-Oxley Act

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

Patriot Act of 2001

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

Government Policies and Future Legislation

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

Dodd-Frank Wall Street Reform and Consumer Protection Act

The federal government is considering a variety of reforms related to banking and the financial industry. Among those reforms is the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), that was enacted by Congress on July 15, 2010, and was signed into law by President Obama on July 21, 2010. The Dodd-Frank Act is intended to promote financial stability in the U.S., reduce the risk of bailouts and protect against abusive financial services practices by improving accountability and transparency in the financial system and ending the concept of too big to fail institutions by giving regulators the ability to liquidate large financial institutions. It is the broadest overhaul of the U.S. financial system since the Great Depression and the overall impact on the Corporation and its subsidiaries is unknown at this time.

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

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

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

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

The Dodd-Frank Act also broadened the base for FDIC insurance assessments. The FDIC was required to promulgate rules revising its assessment system so that it is based on the average consolidated total assets less tangible equity capital of an insured institution instead of deposits. That rule took effect April 1, 2011. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008, and provided for noninterest bearing transaction accounts with unlimited deposit insurance through December 31, 2012.

Not all of the provisions of the Dodd-Frank Act are not yet effective, and the Dodd-Frank Act requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. It is therefore difficult to predict at this time what impact the Dodd-Frank Act and implementing regulations will have on the Corporation and the Bank. The changes resulting from the Dodd-Frank Act could limit our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise materially and adversely affect us. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements could also materially and adversely affect us.

ITEM 1A. RISK FACTORS

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

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

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

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

Federal Home Loan Bank of Pittsburgh continues to monitor its financial performance

On December 23, 2008, the FHLB announced that it would voluntarily suspend the payment of dividends and the repurchase of excess capital stock until further notice. The FHLB expected its ability to pay dividends and add to retained earnings to be significantly curtailed due to low short-term interest rates, an increased cost of maintaining liquidity, other-than-temporary impairment charges, and constrained access to debt markets at attractive rates. Capital stock repurchases from member banks are reviewed on a quarterly basis by the FHLB, and only limited repurchases are expected to occur until further notice. On February 21, 2013, the FHLB declared a dividend equal to 0.32% annualized as well as the repurchase of excess capital stock from member banks. The FHLB continues to monitor its financial performance, retained earnings and other relevant information as a basis for determining future dividends and excess capital repurchases. As of December 31, 2012, the Corporation held $10.8 million of FHLB capital stock.

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

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

Financial turmoil may increase our other-than-temporary-impairment (OTTI) charges

Over the last several years, there has been a rise in OTTI charges taken by institutions, as the fair market values of many investment securities have fallen below their amortized cost basis. The increasing duration of unrealized losses on these securities brought about heightened scrutiny by banks, auditors, and outside examiners on whether write-downs were necessary. If the Corporation s OTTI charges result in it falling below the well capitalized regulatory requirement, the Corporation may need to raise additional capital.

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

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations and may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. In the absence of wholesale funding sources, the Corporation may turn to additional subordinated debt and/or other transactions that might be available. We cannot assure you that such capital will be available to us on acceptable terms or at all. If the Corporation is unable to generate sufficient additional capital though its earnings, or other sources, it would be necessary to slow earning asset growth and or pass up possible acquisition opportunities, which may result in a reduction of future net income growth. Further, an inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition and results of operations.

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

The Corporation recognizes the need to grow both wholesale and non-wholesale funding sources to support earning asset growth and to provide appropriate liquidity. The Corporation s asset growth over the past few years has been funded with various forms of wholesale funding which is defined as wholesale deposits (primarily certificates of deposit) and borrowed funds (FHLB advances, Federal advances and Federal fund line borrowings). Wholesale funding at December 31, 2012 represents approximately 12.1% of total funding compared with approximately 18.3% at December 31, 2011 and 21.5% at December 31, 2010. Wholesale funding generally costs more than deposits generated from the Corporation s traditional branch system and is subject to certain practical limits such as the FHLB s Maximum Borrowing Capacity and the Corporation s liquidity targets. Additionally, regulators might consider wholesale funding beyond certain points to be imprudent and might suggest that future asset growth be reduced or halted.

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

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

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

The capital and credit markets have been experiencing volatility for the past few years. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers seemingly without regard to those issuers underlying financial strength. If the level of market volatility worsens, we could experience a material adverse effect on our business, financial condition and results of operations and/or our ability to access capital. Several factors could cause the market price for our common stock to fluctuate substantially in the future, including without limitation:

announcements of developments related to our business;

fluctuations in our results of operations;

- sales of substantial amounts of our securities into the marketplace;
- general conditions in our markets or the worldwide economy;
- a shortfall in revenues or earnings compared to securities analysts expectations;
- changes in analysts recommendations or projections;
- our announcement of new acquisitions or other projects; and
- Regulatory changes we are required to comply with;

A return to recessionary conditions or status quo in the current economic environment could result in increases in our level of non-performing loans and/or reduce demand for our products and services, which would lead to lower revenue, higher loan losses and lower earnings.

Falling home prices and sharply reduced sales volumes, along with the collapse of the United States subprime mortgage industry in 2008 that followed a national home price peak in mid-2006, significantly contributed to a recession that officially lasted until June 2009, although the effects continued thereafter. Dramatic declines in real estate values and high levels of foreclosures resulted in significant asset write-downs by financial institutions, which have caused many financial institutions to seek additional capital, to merge with other institutions and, in some cases, to fail. Concerns over the United States credit rating (which was last downgraded by Standard & Poor s in August 2011), the European sovereign debt crisis, and continued high unemployment in the United States, among other economic indicators, have contributed to increased volatility in the capital markets and diminished expectations for the economy. Additionally, although the so-called fiscal cliff was averted in early 2013, Congress and the President still need to resolve issues with respect to the U.S. government s debt ceiling and other budgetary and spending matters. Uncertainty as to whether these issues can be resolved or how effective a resolution might be increases the risk of slower economic growth. The nature and ultimate resolution of these issues, or a failure to achieve a timely and effective resolution, may further adversely affect the U.S. economy through possible consequences including further downgrades in the ratings for U.S. Treasury securities, government shutdowns, or substantial spending cuts resulting from sequestration. A return of recessionary conditions and/or continued negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Further declines in real estate values and sales volumes and continued high unemployment levels may result in higher than expected loan delinquencies, increases in our levels of nonperforming and classified assets and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity, and financial condition.

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

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

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

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

15

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

- potential limitations on federal preemption;

- changes to deposit insurance assessments;

- regulation of debit interchange fees we earn;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

All borrowers carry the potential to default and our remedies to recover may not fully satisfy money previously loaned. We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, which represents the Corporation s best estimate of probable credit losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of the Corporation, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance for loan losses reflects the Corporation s continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic conditions; and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks using existing qualitative and quantitative information, all of which may undergo material changes.

Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of additional loan charge-offs, based on judgments different than those of the Corporation. An increase in the allowance for loan losses results in a decrease in net income, and possibly risk-based capital, and may have a material adverse effect on our financial condition and results of operations.

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

The Corporation s controls and procedures may fail or be circumvented

The Corporation diligently reviews and updates the its internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any failure or undetected circumvention of these controls could have a material adverse impact on our financial condition and results of operations.

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

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

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

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

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

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

Economic troubles may negatively affect our leasing business

The Corporation s leasing business which began operations in September 2006, consists of nation-wide leasing various types of equipment to businesses with an average original equipment cost of approximately $21 thousand per lease. Continued economic sluggishness may result in higher credit losses than we would experience in our traditional lending business, as well as potential increases in state regulatory burdens such as state income taxes, personal property taxes and sales and use taxes.

A general economic slowdown could further impact Wealth Management Division revenues

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

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

Realization of a deferred tax asset requires us to exercise significant judgment and is inherently uncertain because it requires the prediction of future occurrences. The deferred tax asset may be reduced in the future if estimates of future income or our tax planning strategies do not support the amount of the deferred tax asset. If it is determined that a valuation allowance of its deferred tax asset is necessary, the Corporation may incur a charge to earnings.

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

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

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

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

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

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

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

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

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

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

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

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

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

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in the Corporation s attention being diverted from the operation of our existing business;

- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;

- potential exposure to unknown or contingent liabilities of banks and businesses we acquire;

- the time and expense required to integrate the operations and personnel of the combined businesses;

- experiencing higher operating expenses relative to operating income from the new operations;

- creating an adverse short-term effect on our results of operations;

- losing key employees and customers as a result of an acquisition that is poorly received; and risk of significant problems relating to the conversion of the financial and customer data of the entity being acquired into the Corporation s financial and customer product systems.

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

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

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

The financial services industry is very competitive, and such competition could affect our operating results

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

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

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

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

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

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

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

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

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

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

- Inability to hire or retain key professionals, management and staff;
- Changes in securities analysts estimates of financial performance;
- Volatility of stock market prices and volumes;
- Rumors or erroneous information;
- Changes in market values of similar companies;
- New developments in the banking industry;
- Variations in quarterly or annual operating results;
- New litigation or changes in existing litigation;
- Regulatory actions;
- Changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2012, the Corporation owns or leases 19 full-service branch locations, seven limited-service Life Care Community branches and eight other office properties which serve as administrative offices.

The total minimum cash lease payments for office, branch office (including ground leases) and life care community locations amounts to $254 thousand per month.

The following table details the Corporation s properties and deposits as of December 31, 2012:

Property Address	Owned/Leased	Net Book Value as of December 31, 2012 (dollars in thousands)	Total Deposits as of December 31, 2012 (dollars in thousands)
Full Service Branches:			
801 Lancaster Ave., Bryn Mawr, PA 19010*	Owned	$ 5,066	$ 675,979
50 W. Lancaster Ave., Ardmore, PA 19003	Leased	2,291	97,283
5000 Pennell Rd., Aston, PA 19014	Leased	423	23,597
135 E. City Avenue, Bala Cynwyd, PA 19004	Leased	2,235	4
3218 Edgemont Ave., Brookhaven, PA 19015	Owned	726	59,169
US Rts. 1 and 100, Chadds Ford, PA 19317	Leased	57	28,216
23 E. Fifth St., Chester, PA 19013	Leased	87	27,113
31 Baltimore Pk., Chester Heights, PA 19017	Leased	459	51,974
237 N. Pottstown Pk., Exton, PA 19341	Leased	794	57,042
18 W. Eagle Rd., Havertown, PA 19083	Owned	1,160	77,281
106 E. Street Rd., Kennett Square, PA 19348	Leased	534	23,338
22 W. State St., Media, PA 19063	Owned	3,377	63,739
3601 West Chester Pk., Newtown Square, PA 19073	Leased	1,124	50,858
39 W. Lancaster Ave., Paoli, PA 19301	Owned	1,519	67,217
330 Dartmouth Ave., Swarthmore, PA 19081	Owned	728	50,733
849 Paoli Pk., West Chester, PA 19380	Leased	1,374	36,852
330 E. Lancaster Ave., Wayne, PA 19087	Owned	1,290	124,605
One Tower Bridge, West Conshohocken, PA 19428	Leased	4	20,784
1000 Rocky Run Parkway, Wilmington, DE 19803	Leased	569	65,977
Life Care Community Offices:			
601 N. Ithan Ave., Bryn Mawr, PA 19010	Leased		5,183
1400 Waverly Rd, Gladwyne, PA 19035	Leased		4,226
3300 Darby Rd., Haverford, PA 19041	Leased		6,065
11 Martins Run, Media, PA 19063	Leased		3,696
535 Gradyville Rd., Newtown Square, PA 19073	Leased		9,511
404 Cheswick Pl., Bryn Mawr, PA 19010	Leased		3,272
1615 E. Boot Rd., West Chester, PA 19380	Leased		968
Other Administrative Offices:			
2, 6 S. Bryn Mawr Ave., Bryn Mawr, PA 19010	Leased	532	Not applicable
10 S. Bryn Mawr Ave., Bryn Mawr, PA 19010***	Owned	814	Not applicable
4093 W. Lincoln Hwy., Exton, PA 19341**	Leased		Not applicable
16 Campus Blvd., Newtown Square, PA 19073**	Leased		Not applicable
322 E. Lancaster Ave., Wayne, PA 19087	Owned	2,575	Not applicable
1 West Chocolate Avenue, Hershey, PA 17033***	Leased	10	Not applicable
20 Montchanin Rd, Suite 185 Greenville, DE 19807**	Leased		Not applicable
20 North Waterloo Rd, Devon PA 19380***	Leased	101	Not applicable
Subsidiary Offices:			
Lau Associates 20 Montchanin Rd, Suite 110, Greenville, DE 19087	Leased	214	Not applicable
BMTC-DE 20 Montchanin Rd, Suite 100 Greenville, DE 19807	Leased	41	Not applicable
Total:		28,104	$ 1,634,682

* *Corporate headquarters and executive offices*

** *Lending office*
*** *Wealth Management office*

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

PART II

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

The Corporation s common stock is traded on the NASDAQ Stock Market under the symbol BMTC. As of December 31, 2012, there were 577 holders of record of the Corporation s common stock.

Range of Market Prices of Common Stock and Cash Dividends

	2012			2011		
	High Bid	Low Bid	Dividend Declared	High Bid	Low Bid	Dividend Declared
1st Quarter	$ 22.88	$ 19.40	$ 0.16	$ 21.45	$ 16.85	$ 0.15
2nd Quarter	$ 22.67	$ 19.90	$ 0.16	$ 21.24	$ 19.11	$ 0.15
3rd Quarter	$ 22.99	$ 20.61	$ 0.16	$ 21.06	$ 16.02	$ 0.15
4th Quarter	$ 22.90	$ 19.97	$ 0.16	$ 19.76	$ 15.19	$ 0.15

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

Comparison of Cumulative Total Return Chart

The following chart compares the yearly percentage change in the cumulative shareholder return on the Corporation s common stock during the five years ended December 31, 2012, with (1) the Total Return for the NASDAQ Market Index; (2) the Total Return Index for SNL Bank and Thrift Index; and (3) the Total Return Index for SNL Mid-Atlantic Bank Index . This comparison assumes $100.00 was invested on December 31, 2007, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends.

Five Year Cumulative Total Return Summary

	For The Twelve Months Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Bryn Mawr Bank Corporation	$ 100.00	$ 90.07	$ 69.83	$ 83.45	$ 96.15	$ 113.21
NASDAQ Market Index	$ 100.00	$ 60.02	$ 87.24	$ 103.08	$ 102.26	$ 120.42
SNL Bank and Thrift	$ 100.00	$ 57.51	$ 56.74	$ 63.34	$ 49.25	$ 66.14
SNL Mid-Atlantic Bank	$ 100.00	$ 55.09	$ 57.99	$ 67.67	$ 50.82	$ 68.08

Equity Compensation Plan Information

Equity compensation plan information is incorporated by reference to Item 12 of this Annual Report on Form 10-K. Additional information regarding the Corporation s stock option plans can be found at Note 19 Stock Based Compensation in the accompanying Notes to Consolidated Financial Statements found in this Annual Report on Form 10-K.

Issuer Purchases of Equity Securities

The following tables present the repurchasing activity of the Corporation during the fourth quarter of 2012:

Shares Repurchased in the 4th Quarter of 2012 (1) (2)

Period:	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs**
Oct. 1, 2012 Oct. 31,2012				195,705
Nov. 1, 2012 Nov. 30, 2012				195,705
Dec. 1, 2012 Dec. 31, 2012				195,705
Total				

(1) *On February 24, 2006, the Board of Directors of the Corporation adopted a new stock repurchase program (the 2006 Program) under which the Corporation may repurchase up to 450,000 shares of the Corporation s common stock, not to exceed $10 million. The 2006 Program was publicly announced in a Press Release dated February 24, 2006. There is no expiration date on the 2006 Program. All shares purchased through the 2006 Program were accomplished in open market transactions.*

(2) *In October, November and December 2012, no shares were purchased by the Corporation s Deferred Compensation Plans through open market transactions by the Corporation s Wealth Management Division investment personnel.*

ITEM 6. SELECTED FINANCIAL DATA

Earnings *(dollars in thousands)*	As of or for the Twelve Months Ended December 31, **2012**	**2011**	**2010**	**2009***	**2008***
Interest income	$ 73,323	$ 74,562	$ 64,897	$ 56,892	$ 57,934
Interest expense	8,588	11,661	12,646	16,099	20,796
Net interest income	64,735	62,901	52,251	40,793	37,138
Provision for loan and lease losses	4,003	6,088	9,854	6,884	5,596
Net interest income after provision for loan and lease losses	60,732	56,813	42,397	33,909	31,542
Non-interest income	46,386	34,059	29,299	28,470	21,472
Non-interest expense	74,901	61,729	58,206	46,542	38,676
Income before income taxes	32,217	29,143	13,490	15,837	14,338
Income taxes	11,070	9,541	4,444	5,500	5,013
Net Income	$ 21,147	$ 19,602	$ 9,046	$ 10,337	$ 9,325
Per Share Data					
Weighted-average shares outstanding	13,090,110	12,659,824	10,680,377	8,732,004	8,566,938
Dilutive potential common shares	151,736	82,313	12,312	16,719	34,233
Adjusted weighted-average shares	13,241,846	12,742,137	10,692,689	8,748,723	8,601,171
Earnings per common share:					
Basic	$ 1.62	$ 1.55	$ 0.85	$ 1.18	$ 1.09
Diluted	$ 1.60	$ 1.54	$ 0.85	$ 1.18	$ 1.08
Dividends declared	$ 0.64	$ 0.60	$ 0.56	$ 0.56	$ 0.54
Dividends declared per share to net income per basic common share	39.5%	38.7%	65.9%	47.5%	49.5%
Shares outstanding at year end	13,412,690	13,106,353	12,181,247	8,866,420	8,592,259
Book value per share	$ 15.18	$ 14.07	$ 13.14	$ 11.72	$ 10.76
Tangible book value per share	$ 11.08	$ 10.81	$ 11.11	$ 10.40	$ 9.55
Profitability Ratios					
Tax-equivalent net interest margin	3.85%	3.96%	3.79%	3.70%	3.84%
Return on average assets	1.15%	1.13%	0.61%	0.88%	0.89%
Return on average equity	10.91%	11.10%	6.72%	10.55%	10.01%
Non-interest expense to net-interest income and non-interest income	67.4%	63.7%	71.4%	67.2%	66.0%
Non-interest expense to net-interest income and non-interest income	41.7%	35.1%	35.9%	41.1%	36.6%
Average equity to average total assets	10.57%	10.19%	9.02%	8.30%	8.91%
Financial Condition					
Total assets	$ 2,035,885	$ 1,773,373	$ 1,730,388	$ 1,238,821	$ 1,151,346
Total liabilities	1,832,321	1,588,994	1,570,350	1,134,885	1,058,933
Total shareholders equity	203,564	184,379	160,038	103,936	92,413
Interest-earning assets	1,879,412	1,629,607	1,600,125	1,164,617	1,061,139
Portfolio loans and leases	1,398,456	1,295,392	1,196,717	885,739	899,577
Investment securities	318,061	275,258	320,047	208,224	108,329
Goodwill	32,897	24,689	17,659	6,301	4,629
Intangible assets	21,998	18,014	7,064	5,421	5,729
Deposits	1,634,682	1,382,369	1,341,432	937,887	869,490
Borrowings	170,718	183,158	204,724	169,388	169,939
Wealth assets under management, administration, supervision and brokerage	6,663,212	4,831,631	3,412,890	2,871,143	2,146,399
Capital Ratios					
Ratio of tangible common equity to tangible assets	7.60%	8.19%	7.93%	7.51%	7.19%
Tier 1 capital to risk weighted assets	11.02%	11.16%	11.21%	9.41%	8.81%
Total regulatory capital to risk weighted assets	12.02%	13.74%	13.62%	12.53%	11.29%
Asset quality					
Allowance as a percentage of portfolio loans and leases	1.03%	0.98%	0.86%	1.18%	1.15%
Non-performing loans and leases as a percentage of portfolio loans and leases	1.06%	1.11%	0.79%	0.78%	0.65%

* *Amounts in 2008 and 2009 have not been adjusted to reflect the immaterial effect of the correction of an immaterial accounting error. For more information, refer to Note 1-B in the Notes to Consolidated Financial Statements.*

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

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

Brief History of the Corporation

The Bryn Mawr Trust Company (the Bank) received its Pennsylvania banking charter in 1889 and is a member of the Federal Reserve System. In 1986, Bryn Mawr Bank Corporation (the Corporation) was formed and on January 2, 1987, the Bank became a wholly-owned subsidiary of the Corporation. The Bank and Corporation are headquartered in Bryn Mawr, Pennsylvania, a western suburb of Philadelphia. The Corporation and its subsidiaries offer a full range of personal and business banking services, consumer and commercial loans, equipment leasing, mortgages, insurance and wealth management services, including investment management, trust and estate administration, retirement planning, custody services, and tax planning and preparation from 19 full-service branches and seven limited-hour, retirement community offices throughout Montgomery, Delaware and Chester counties of Pennsylvania and New Castle county in Delaware. The common stock of the Corporation trades on the NASDAQ Stock Market (NASDAQ) under the symbol BMTC.

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

During the three years ended December 31, 2012, the Corporation completed the following transactions:

First Bank of Delaware

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

Davidson Trust Company

On May 15, 2012, the acquisition of Davidson Trust Company (DTC) by the Corporation was completed. The transaction was accounted for as a business combination. The acquisition of DTC initially increased the Corporation s wealth management division assets under management by $1.0 billion. The structure of the Corporation s existing wealth management segment allowed for the immediate integration of DTC and was able to take advantage of the various synergies that exist between the two companies.

The Private Wealth Management Group of The Hershey Trust Company

On May 27, 2011, the acquisition of the Private Wealth Management Group of the Hershey Trust Company (PWMG) by the Corporation was completed. The transaction was accounted for as a business combination. The acquisition of PWMG initially increased the Corporation s wealth management division assets under management by $1.1 billion. The acquisition of PWMG allowed the Corporation to establish a presence in central Pennsylvania by maintaining the former PWMG offices in Hershey, Pennsylvania.

First Keystone Financial, Inc.

On July 1, 2010, the merger of First Keystone Financial, Inc. (FKF) with and into the Corporation, and the two step merger of FKF s wholly-owned subsidiary, First Keystone Bank with and into the Bank, were completed.

The transaction was accounted for as a business combination. The merger with FKF, a federally chartered thrift institution with assets of approximately $480 million, enabled the Corporation to increase its regional footprint with the addition of eight full service branch locations, primarily in Delaware County, Pennsylvania. The geographic locations of the acquired branches were such that it was not necessary to close any of the former FKF branches. By expanding into these new areas within Delaware County, Pennsylvania, the Corporation has been able to extend its successful sales culture as well as offer its reputable wealth management products and other value-added services to a wider segment of the region s population.

Results of Operations

The following is Management s discussion and analysis of the significant changes in the results of operations, capital resources and liquidity presented in the accompanying consolidated financial statements. The Corporation s consolidated financial condition and results of operations are comprised primarily of the Bank s financial condition and results of operations. Current performance does not guarantee, and may not be indicative of, similar performance in the future. For more information on the factors that could affect performance, see Special Cautionary Notice Regarding Forward Looking Statements on page 57 of this Item.

Critical Accounting Policies, Judgments and Estimates

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

The allowance for loan and lease losses (the Allowance) involves a higher degree of judgment and complexity than other significant accounting policies. The allowance for loan and lease losses is calculated with the objective of maintaining a reserve level believed by the Corporation to be sufficient to absorb estimated probable credit losses. The Corporation s determination of the adequacy of the allowance is based on periodic evaluations of the loan and lease portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, expected loan commitment usage, the amounts and timing of expected future cash flows on impaired loans and leases, value of collateral, estimated losses on consumer loans and residential mortgages and general amounts for historical loss experience. The process also considers economic conditions and inherent risks in the loan and lease portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from the Corporation s estimates, additional provision for loan and lease losses (the Provision) may be required that would adversely impact earnings in future periods. See the section of this document titled *Asset Quality and Analysis of Credit Risk* for additional information.

Other significant accounting policies are presented in Note 1 in the accompanying financial statements. The Corporation s Summary of Significant Accounting Policies has not substantively changed any aspect of its overall approach in the application of the foregoing policies.

Overview of General Economic, Regulatory and Governmental Environment

Despite the uncertainty surrounding the ultimate outcome of the nation s remaining budgetary agreement, the general economic outlook is showing slow but steady improvement. Unemployment rates are moving lower and consumer balance sheets have improved to a level of quality not seen since the early 1990 s. Debt levels have been reduced and asset levels recouped much of the losses from the Great Recession. Throughout the last four years, consumers have reduced the amount of disposable personal income that has been committed to meeting total financial obligations (auto, mortgage, insurance and taxes) from a historically high level of 19% to slightly below 16% representing the healthiest level in more than 20 years.

The housing market has been showing a gradual improvement over the last few quarters, as measured by new building permits as well as an improvement in new and existing home sales. This improvement has occurred amid a favorable backdrop of historically low mortgage rates. In addition to the forecasted improvement in the housing market, consumer spending on durable goods should also show a marked improvement as we move through the year. Improvement in consumers balance sheets has been met by a banking industry now adequately capitalized and willing to make credit available at very attractive rates.

The initial reaction to the American Taxpayer Relief Act of 2012 has been positive for the markets since many of the individual tax policy uncertainties have been settled. The Bush-era personal income tax rates have been made permanent for those individuals making under $400,000 and capital gains, dividend income, and estate tax rates have been set going forward with unemployment benefits having been extended for another year. However, many uncertainties remain to be addressed in the areas of corporate tax rates and incentives as well as the required governmental spending reductions that will become necessary to reduce the deficit.

The Federal Reserve s continued efforts to maintain low interest rates during the months ahead, coupled with relatively high unemployment rates and low capacity utilization rates, should continue to contain the underlying inflationary pressure over the near to intermediate term. In the long term however, the magnitude of future inflationary pressure will depend on the government s resolve in completing the actions that are necessary to restore a climate of fiscal discipline by reducing the size of the fiscal budget deficit. Through the next few years, economic growth is likely to remain under historically average trends given the expected impact of a combination of government spending reductions and revenue increases needed to reduce the level of our ongoing federal deficit. This deleveraging would likely moderate the underlying growth potential of the United States as well as many of the other major economies over the next five to seven years.

Executive Overview

2012 Compared to 2011

Income Statement

The Corporation reported net income of $21.1 million or $1.60 diluted earnings per share for the twelve months ended December 31, 2012, as compared to $19.6 million, or $1.54 diluted earnings per share, for the same period in 2011. Return on average equity (ROE) and return on average assets (ROA) for the twelve months ended December 31, 2012, were 10.91% and 1.15%, respectively, as compared to 11.08% and 1.14%, respectively, for the same period in 2011. The increase in net income for the twelve months ended December 31, 2012, as compared to the same period in 2011, was largely related to a $12.3 million increase in non-interest income, comprised primarily of increases in wealth management revenue and gains on sale of residential mortgage loans. Also contributing to the net income increase was a $1.8 million increase in net interest income and a $2.1 million decrease in Provision between the periods. These improvements were substantially offset by a $13.2 million increase in non-interest expense and a $1.5 million increase in income tax expense for the twelve months ended December 31, 2012, as compared to the same period in 2011.

The $1.8 million, or 2.9% increase in the Corporation s tax-equivalent net interest income for the twelve months ended December 31, 2012, as compared to the same period in 2011, was attributed to a $3.1 million, or 26.4%, decrease in tax-equivalent interest expense offset by a $1.2 million, or 1.6%, decrease in tax-equivalent interest income for the twelve months ended December 31, 2012, as compared to the same period in 2011. The Corporation s tax-equivalent net interest margin declined to 3.85% for the twelve months ended December 31, 2012 from 3.96% for the same period in 2011.

For the twelve months ended December 31, 2012, the provision for loan and lease losses of $4.0 million was a decrease of $2.1 million from the $6.1 million for the same period in 2011. This decrease was partially the result of a $1.3 million, or 35.4%, decline in net loan charge-offs for the twelve months ended December 31, 2012, as compared to the same period in 2011. The decrease in net loan charge-offs was concentrated in the commercial mortgage, leasing and residential mortgage segments of the portfolio.

Non-interest income for the twelve months ended December 31, 2012 was $46.4 million, an increase of $12.3 million, or 36.2%, as compared to the same period in 2011. Largely contributing to the increase in non-interest income was an $8.1 million, or 37.5%, increase in fees for wealth management services, as the additions of PWMG in May 2011 and DTC in May 2012 had a significant impact on wealth management revenue. Augmenting the wealth management revenue increase was a $4.2 million, or 167.6%, increase in the gain on sale of residential mortgage loans for the twelve months ended December 31, 2012, as compared to the same period in 2010. During 2012, the Corporation experienced a surge in the volume of residential mortgage loan originations, as the low interest rate climate spurred on another refinancing boom.

Non-interest expense for the twelve months ended December 31, 2012, was $74.9 million, an increase of $13.2 million, or 21.3%, as compared to the same period in 2011. Contributing to this increase were a $6.3 million increase in salaries and employee benefits and a $2.1 million increase in due diligence and merger-related expenses. During 2012, the Corporation completed two transactions which not only accounted for the due diligence and merger-related expense increase, but also added overhead costs in the form of salaries and employee benefits as well as occupancy costs related to the new employees and facilities.

Balance Sheet

Asset quality remained relatively stable as of December 31, 2012. The allowance for loan and lease losses of $14.4 million was 1.03% of portfolio loans and leases, as of December 31, 2012, as compared to $12.8 million, or 0.98% of portfolio loans and leases, at December 31, 2011. The increase in the Allowance as of December 31, 2012, as compared to December 31, 2011, is reflective of the increase in the balance of loan portfolio between the dates.

Total portfolio loans and leases of $1.40 billion at December 31, 2012 increased $103.1 million, or 8.0%, as compared to $1.30 billion at December 31, 2011. The loan growth was concentrated in the commercial mortgage and commercial and industrial segments of the portfolio and was largely related to the $76.6 million of loans acquired from FBD.

The Corporation s investment portfolio at December 31, 2012 had a fair market value of $316.6 million, as compared to $273.8 million at December 31, 2011, as cash inflows from maturities, calls and pay downs as well as deposit inflows were reinvested.

Deposits of $1.63 billion, as of December 31, 2012, increased $252.3 million from December 31, 2011. The 18.3% increase was partially the result of the $70.3 million of deposits acquired from FBD, along with significant organic growth concentrated in the money market segment of the portfolio.

2011 Compared to 2010

Income Statement

In general, the differences in the results of operations for the twelve months ended December 31, 2011, as compared to the same period in 2010, were significantly impacted by the July 1, 2010 merger with FKF and the May 27, 2011 acquisition of PWMG. The Corporation reported net income of $19.6 million or $1.54 diluted earnings per share for the twelve months ended December 31, 2011, as compared to $9.0 million, or $0.85 diluted earnings per share, for the same period in 2010. ROE and ROA for the twelve months ended December 31, 2011, were 11.08% and 1.14%, respectively, as compared to 6.72% and 0.61%, respectively, for the same period in 2010. The increase in net income and, in turn, ROE and ROA for the twelve months ended December 31, 2011, as compared to the same period in 2010, was primarily related to a $10.7 million increase in net interest income, a $4.8 million increase in non-interest income and a $3.8 million decrease in Provision. These improvements were partially offset by a $3.5 million increase in non-interest expense and a $5.1 million increase in income tax expense for the twelve months ended December 31, 2011, as compared to the same period in 2010

The $10.4 million, or 19.6% increase in the Corporation s tax-equivalent net interest income for the twelve months ended December 31, 2011, as compared to the same period in 2010, was largely attributed to a $9.4 million, or 14.3%, increase in tax-equivalent interest income for the twelve months ended December 31, 2011, as compared to the same period in 2010 which was primarily the result of a $209.0 million increase in average portfolio loans between the periods. The Corporation s tax-equivalent net interest margin increased to 3.96% for the twelve months ended December 31, 2011 from 3.79% for the same period in 2010.

For the twelve months ended December 31, 2011, the provision for loan and lease losses of $6.1 million was a decrease of $3.8 million, or 38.2%, from the $9.9 million for the same period in 2010. This decrease resulted from the $6.4 million, or 63.9%, decline in net loan charge-offs for the twelve months ended December 31, 2011, as compared to the same period in 2010. The decrease in net loan charge-offs was primarily related to the $6.7 million decrease in net charge-offs of commercial and industrial loans between the periods. Increases in non-performing loans, primarily related to two residential construction loan relationships which became non-performing during 2011, required additional Provision, partially offsetting the charge-off declines.

Non-interest income for the twelve months ended December 31, 2011 was $34.1 million, an increase of $4.8 million, or 16.2%, as compared to the same period in 2010. Largely contributing to the increase in non-interest income for the twelve months ended December 31, 2011 was a $6.2 million, or 39.8%, increase in fees for wealth management services. This increase was primarily attributable to the May 27, 2011 acquisition of PWMG, which initially added $1.1 billion to the Corporation s assets under management, administration, supervision and brokerage. Partially offsetting the increase in wealth management revenues was a $2.2 million decrease in the gain on sale of residential mortgage loans for the twelve months ended December 31, 2011, as compared to the same period in 2010. During 2011, the Corporation experienced a decline in the volume of residential mortgage loan originations, as the refinancing boom of 2010 dropped off and did not continue into 2011. In addition, the Corporation elected to retain a larger portion of the originated residential loans in its portfolio.

Non-interest expense for the twelve months ended December 31, 2011, was $61.7 million, an increase of $3.5 million, or 6.1%, as compared to the same period in 2010. Contributing to this increase were a $4.2 million increase in salaries and benefits expenses, a $1.7 million increase in occupancy-related expenses, a $756 thousand increase in impairment of mortgage servicing rights, a $1.5 million increase in other operating expenses and a $1.0 million increase in intangible asset amortization. These increases were substantially offset by a $5.2 million decrease in due diligence and merger-related expenses between the periods.

Components of Net Income

Net income is comprised of five major elements:

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

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

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

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

Income Taxes, which include state and federal jurisdictions.

Net Interest Income

Rate/Volume Analyses (Tax-equivalent Basis)*

The rate volume analysis in the table below analyzes dollar changes in the components of interest income and interest expense as they relate to the change in balances (volume) and the change in interest rates (rate) of tax-equivalent net interest income for the years 2012 as compared to 2011 and 2011 as compared to 2010, allocated by rate and volume. The change in interest income / expense due to both volume and rate has been allocated to changes in volume.

	Year Ended December 31,					
(dollars in thousands)	2012 Compared to 2011			2011 Compared to 2010		
increase/(decrease)	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Interest-bearing deposits with banks	$ 18	$ (6)	$ 12	$ (53)	$ (11)	$ (64)
Investment securities taxable	306	(1,109)	(803)	559	(304)	255
Investment securities nontaxable	207	(234)	(27)	(688)	(88)	(776)
Loans and leases	3,384	(3,798)	(414)	11,972	(1,997)	9,975
Total interest income	3,915	(5,147)	(1,232)	11,790	(2,400)	9,390
Interest expense:						
Savings, NOW and market rate accounts	444	(1,133)	(689)	646	(645)	1
Wholesale non-maturity deposits	(69)	14	(55)	24	(101)	(77)
Wholesale time deposits	(139)	(94)	(233)	(134)	(196)	(330)
Time deposits	(361)	(417)	(778)	339	(246)	93
Borrowed funds long-term	88	(1,403)	(1,315)	(859)	179	(680)
Borrowed funds short-term	5	(8)	(3)	15	(7)	8
Total interest expense	(32)	(3,041)	(3,073)	31	(1,016)	(985)
Interest differential	$ 3,947	$ (2,106)	$ 1,841	$ 11,759	$ (1,384)	$ 10,375

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

Analysis of Interest Rates and Interest Differential

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

	For the Year Ended December 31,								
	2012			2011			2010		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid
Assets:									
Interest-bearing deposits with banks	$ 60,389	$ 127	0.21%	$ 52,390	$ 115	0.22%	$ 73,521	$ 179	0.24%
Investment securities available for sale:									
Taxable	299,598	4,060	1.36%	281,970	4,868	1.73%	251,318	4,620	1.84%
Tax Exempt	16,685	302	1.81%	10,239	329	3.21%	27,173	1,105	4.07%
Total investment securities available for sale	316,283	4,362	1.38%	292,209	5,197	1.78%	278,491	5,725	2.06%
Investment securities trading	1,431	37	2.59%	1,339	32	2.39%	1,383	25	1.81%
Loans and leases[(1)(2)(3)]	1,310,883	69,140	5.27%	1,250,071	69,554	5.56%	1,041,109	59,579	5.72%
Total interest-earning assets	1,688,986	73,666	4.36%	1,596,009	74,898	4.69%	1,394,504	65,508	4.70%
Cash and due from banks	12,890			12,078			11,750		
Allowance for loan and lease losses	(13,469)			(11,397)			(10,248)		
Other assets	144,594			134,996			96,145		
Total assets	$ 1,833,001			$ 1,731,686			$ 1,492,151		
Liabilities:									
Savings, NOW, and market rate accounts	$ 828,675	2,268	0.27%	$ 722,850	2,957	0.41%	$ 594,756	$ 2,957	0.50%
Wholesale non-maturity deposits	46,815	169	0.36%	67,793	224	0.33%	62,875	301	0.48%
Wholesale time deposits	17,256	88	0.51%	30,429	321	1.05%	38,379	651	1.70%
Time deposits	195,778	1,507	0.77%	232,084	2,285	0.98%	201,947	2,192	1.09%
Total interest-bearing deposits	1,088,524	4,032	0.37%	1,053,156	5,787	0.55%	897,957	6,101	0.68%
Subordinated debentures	18,327	931	5.08%	22,500	1,123	4.99%	22,500	1,129	5.02%
Junior subordinated debentures				11,580	1,050	9.06%	6,076	493	8.13%
Short-term borrowings	13,525	21	0.16%	11,380	25	0.21%	5,838	16	0.28%
FHLB advances and other borrowings	163,888	3,604	2.20%	145,421	3,676	2.53%	177,882	4,907	2.76%
Total interest-bearing liabilities	1,284,264	8,588	0.67%	1,244,037	11,661	0.94%	1,110,253	12,646	1.14%
Non-interest-bearing deposits	329,631			287,553			222,715		
Other liabilities	25,242			23,573			24,601		
Total non-interest-bearing liabilities	354,873			311,126			247,316		
Total liabilities	1,639,137			1,555,163			1,357,569		
Shareholders equity	193,864			176,523			134,582		
Total liabilities and shareholders equity	$ 1,833,001			$ 1,731,686			$ 1,492,151		
Net interest spread			3.69%			3.75%			3.56%
Effect of non-interest-bearing sources			0.16%			0.21%			0.23%
Net interest income/margin on earning assets		$ 65,078	3.85%		$ 63,237	3.96%		$ 52,862	3.79%

Tax-equivalent adjustment (tax rate 35%)	$	343	0.02%	$	336	0.02%	$	611	0.04%

(1) *Non-accrual loans have been included in average loan balances, but interest on non-accrual loans has not been included for purposes of determining interest income.*
(2) *Includes portfolio loans and leases and loans held for sale.*
(3) *Interest on loans and leases includes deferred (costs) fees of $(12), $24 and $106*

Tax-Equivalent Net Interest Income and Margin 2012 Compared to 2011

The tax-equivalent net interest margin declined 11 basis points to 3.85% for the twelve months ended December 31, 2012, as compared to 3.96%, for the same period in 2011.

Tax-equivalent net interest income for the twelve months ended December 31, 2012 of $65.1 million, was $1.9 million, or 2.9%, higher than the tax-equivalent net interest income of $63.2 million for the same period in 2011. Although the decline in tax-equivalent yield earned on interest-bearing assets outpaced the decline in tax-equivalent rate paid on interest-bearing liabilities, there was a $93.0 million increase in average interest-earning assets, compared to only a $40.2 million increase in average interest-bearing liabilities between the periods.

The significant growth in average interest-bearing assets included a $60.8 million increase in average loans, much of which was the result of loan originations, as opposed to the acquisition of loans from FBD, which occurred midway through the fourth quarter of 2012. In addition, the strategic decision to prepay the Corporation s $22.5 million of subordinated debt during the third and fourth quarters of 2012 contributed to the reduction in tax-equivalent rate paid on interest-bearing liabilities.

Tax-Equivalent Net Interest Income and Margin 2011 Compared to 2010

The tax-equivalent net interest margin increased 17 basis points to 3.96% for the twelve months ended December 31, 2011, as compared to 3.79%, for the same period in 2010.

Tax-equivalent net interest income for the twelve months ended December 31, 2011, of $63.2 million, was $10.4 million, or 19.6%, higher than the tax-equivalent net interest income of $52.8 million for the same period in 2010. This increase was primarily the result of the $201.5 million increase in average interest-earning assets for the twelve months ended December 31, 2011, as compared to the same period in 2010. The increase in average interest-earning assets was not only related to the assets acquired in the July 1, 2010 merger with FKF, which were present for all of 2011, as opposed to only six months during 2010; it was also the result of the organic loan growth of $98.7 million which occurred during the twelve months ended December 31, 2011.

Partially offsetting the increase in interest-earning assets was the $133.8 million increase in average interest-bearing liabilities for the twelve months ended December 31, 2011, as compared to the same period in 2010. This increase was largely related to the deposits and other borrowings assumed in the FKF merger. During the twelve months ended December 31, 2011, the balance of interest-bearing liabilities declined $24.7 million, as FHLB advances and other borrowings decreased by $12.3 million and the Corporation elected to prepay its $12.0 million of 9.7% junior subordinated debentures, which had been acquired in the merger with FKF. The tax-equivalent average rate paid on interest-bearing liabilities for the twelve months ended December 31, 2011 was 0.94%, a decrease of 20 basis points from 1.14% for the same period in 2010. Largely contributing to this decrease was the 13 basis point decline in tax-equivalent rates paid on interest-bearing deposits, as lower-rate money market deposits and non-interest-bearing deposits replaced the scheduled run-off of higher-rate time and wholesale deposits.

Tax-Equivalent Net Interest Margin Quarterly Comparison

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

Quarter	Year	Earning-Asset Yield	Interest-Bearing Liability Cost	Net Interest Spread	Effect of Non-Interest-Bearing Sources	Tax-Equivalent Net Interest Margin
4th	2012	4.27%	0.54%	3.73%	0.13%	3.86%
3rd	2012	4.28%	0.66%	3.62%	0.16%	3.78%
2nd	2012	4.39%	0.72%	3.67%	0.17%	3.84%
1st	2012	4.51%	0.76%	3.75%	0.18%	3.93%
4th	2011	4.59%	0.88%	3.71%	0.20%	3.91%

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, Certificate of Deposit Account Registry Service (CDARS), Insured Network Deposit (IND) Program, Institutional Deposit Corporation (IDC) and 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 twelve months. The changes to net interest income shown below are in compliance with the Corporation s policy guidelines.

Summary of Interest Rate Simulation

(dollars in thousands)	**December 31, 2012 Estimated Change In Net Interest Income Over Next 12 Months**	
Change in Interest Rates		
+300 basis points	$ 6,029	8.23%
+200 basis points	$ 3,425	4.68%
+100 basis points	$ 1,203	1.64%
-100 basis points	$ (1,817)	(2.48)%

The interest rate simulation above demonstrates that the Corporation s balance sheet as of December 31, 2012 is asset sensitive, indicating that an increase in interest rates will have a positive impact on net interest income over the next 12 months while a decrease in interest rates will negatively impact net interest income. In the above simulation, net interest income will increase if rates increase 100, 200 or 300 basis points. Because the Corporation s internal prime loan rate is set, as of December 31, 2012, at 3.99%, or 74 basis points above the Wall Street Journal Prime Rate of 3.25%, a 100 basis point increase in interest rates would have a less significant effect than it would had the Corporation not set this prime rate limit. The 100 basis point decrease scenario shows a $1.82 million, or 2.48%, decrease in net interest income over the next twelve months as many of the Corporation s liabilities bear rates of interest below 1.00% and therefore would not be able to sustain the entire decrease. The four scenarios are directionally consistent with the December 31, 2011 simulation, but reflect a higher interest income increase and percentage change in net interest income due to the current rate environment.

The interest rate simulation is an estimate based on assumptions, which are based on 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 interest rate simulation model is more uncertain than in other periods. Actual customer behavior may be significantly different than expected behavior, which could cause an unexpected outcome and may result in lower net interest income.

Gap Report

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

Non-maturity deposits (demand deposits in particular), are recognized by the Bank s regulatory agencies to have different sensitivities to interest rate environments. Consequently, it is an accepted practice to spread non-maturity deposits over defined time periods in order to capture that sensitivity. Commercial demand deposits are often in the form of compensating balances, and fluctuate inversely to the level of interest rates; the maturity of these deposits is reported as having a shorter life than typical retail demand deposits. Additionally, the Bank s regulatory agencies have suggested distribution limits for non-maturity deposits. However, the Corporation has taken a more conservative approach than these limits would suggest by forecasting these deposit types with a shorter maturity. The following table presents the Corporation s Gap Analysis as of December 31, 2012:

(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	$ 159.5	$	$	$	$	$ 159.5
Investment securities[1]	61.6	58.4	155.0	43.1		318.1
Loans and leases[2]	430.5	164.1	634.7	172.6		1,401.9
Allowance					(14.4)	(14.4)
Cash and due from banks					16.2	16.2
Other assets					154.6	154.6
Total assets	$ 651.6	$ 222.5	$ 789.7	$ 215.7	$ 156.4	$ 2,035.9
Liabilities and shareholders equity:						
Demand, non-interest-bearing	$ 26.2	$ 78.7	$ 114.8	$ 180.0	$	$ 399.7
Savings, NOW and market rate	68.7	206.1	475.4	208.6		958.8
Time deposits	91.1	89.8	37.4	0.3		218.6
Wholesale non-maturity deposits	45.2					45.2
Wholesale time deposits	6.4	0.6	5.4			12.4
Short-term borrowings	9.4					9.4
FHLB advances and other borrowings	41.3	11.2	108.2	0.6		161.3
Other liabilities					26.9	26.9
Shareholders equity	7.3	21.8	116.3	58.2		203.6
Total liabilities and shareholders equity	$ 295.6	$ 408.2	$ 857.5	$ 447.7	$ 26.9	$ 2,035.9
Interest-earning assets	$ 651.6	$ 222.5	$ 789.7	$ 215.7	$	$ 1,879.5
Interest-bearing liabilities	262.1	307.7	626.4	209.5		1,405.7
Difference between interest-earning assets and interest-bearing liabilities	$ 389.5	$ (85.2)	$ 163.3	$ 6.2	$	$ 473.8
Cumulative difference between interest earning assets and interest-bearing liabilities	$ 389.5	$ 304.3	$ 467.6	$ 473.8	$	$ 473.8
Cumulative earning assets as a % of cumulative interest bearing liabilities	249%	153%	139%	134%		

(1) *Investment securities include available for sale and trading.*

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

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

Fair Value Adjustments Impacting the Statement of Income

The following table details the actual effect for the twelve month periods ended December 31, 2012, 2011 and 2010, and the projected effect, for each of the five years ending December 31, 2017, and thereafter, of the accretable and amortizable fair value adjustments attributable to the FKF merger and the FBD transaction, on net interest income, net non-interest income and pretax income. The projected accretion and amortization is subject to change in future periods related to, among other things, changes in the Corporation s estimates of loan cash flows, deposit maturities, loan prepayments, and prepayments of FHLB advances.

		Actual			Projected					
	Income	For the Twelve Months Ended December 31,			For the Twelve Months Ending December 31,					
	Statement Effect	2010	2011	2012	2013	2014	2015	2016	2017	Thereafter
Interest income/expense:										
Loans	Income	$ 657	$ 1,548	$ 1,706	$ 2,216	$ 2,187	$ 1,628	$ 1,235	$ 481	$ 1,913
Investment securities	Expense	(554)	(570)	(630)						
Deposits	Income	564	545	391	349	23				
FHLB advances	Income	1,450	552	442	142	125	125	121	121	9
Jr. subordinated debentures	Income	78	55							
Net interest income		2,195	2,130	1,909	2,707	2,335	1,753	1,356	602	1,922
Non-interest income/expense:										
Premises and equipment	Expense	46	93	93	111	111	111	111	111	1,390
Other liabilities	Income			(76)	(39)					
Net non-interest expense		46	93	17	72	111	111	111	111	1,390
Pretax income effect		$ 2,149	$ 2,037	$ 1,892	$ 2,635	$ 2,224	$ 1,642	$ 1,245	$ 491	$ 532

Provision for Loan and Lease Losses

Loans Acquired in Mergers and Acquisitions

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

Certain loans were acquired which exhibited deteriorated credit quality since origination and for which the Corporation does not expect to collect all contractual payments. Accounting for these *purchased credit-impaired* loans is done in accordance with ASC 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer . The loans were recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition on these loans is based on a reasonable expectation about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral indeterminate, remain on non-accrual status and have no accretable yield.

Management evaluates purchased credit-impaired loans individually for further impairment. The balance of the Corporation s loan and lease portfolio is evaluated on either an individual basis or on a collective basis for impairment. Refer to Notes 5-F and 5-H in the Notes to Consolidated Financial Statements for a more information regarding the Corporation s impaired loans and leases.

General Discussion of the Allowance for Loan and Lease Losses

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

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

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

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

The four components of the Allowance are as follows:

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

Historical Charge-Off Component Applies a rolling, twelve quarter, historical charge-off rate to pools of non-classified loans

Additional Qualitative Factors Component The loan and lease portfolios are broken down into multiple homogenous sub classifications, upon which multiple factors (such as delinquency trends, economic conditions, loan terms, credit grade, state of origination, industry, regulatory environment and other relevant information) are evaluated, resulting in an Allowance amount for each of the sub classifications. The sum of these amounts comprises the Additional Qualitative Factors Component.

Unallocated Component This amount represents a reserve against all loans for factors not included in the components mentioned above.

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

Pass Loans considered satisfactory with no indications of deterioration.

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

Substandard Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have 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. Loan balances classified as doubtful have been reduced by partial charge-offs and are carried at their net realizable values.

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

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

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

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

Refer to Note 5 in the Notes to Consolidated Financial Statements and page 49 of this MD&A under the heading Portfolio Loans and Leases for details of the Corporation s loan and lease portfolio, broken down by portfolio segment.

Impairment Measurement In accordance with guidance provided by ASC 310-10, Accounting by Creditors for Impairment of a Loan , the Corporation employs one of three methods to determine and measure impairment:

- the Present Value of Future Cash Flow Method;
- the Fair Value of Collateral Method;

the Observable Market Price of a Loan Method.

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

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

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

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

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

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

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

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

Asset Quality and Analysis of Credit Risk

As of December 31, 2012, total non-performing loans and leases of $14.8 million representing 1.06% of portfolio loans and leases, as compared to 1.11%, or $14.3 million, as of December 31, 2011. The $453 thousand increase in non-performing loans and leases is comprised of a $1.2 million increase in nonperforming commercial and industrial loans and a $520 thousand increase in nonperforming residential mortgages. These increases were substantially offset by reductions of $412 thousand and $858 thousand in nonperforming commercial mortgages and construction loans, respectively, between the dates.

The Provision for the twelve month periods ended December 31, 2012, 2011 and 2010 was $4.0 million, $6.1 million and $9.9 million, respectively. As of December 31, 2012, the Allowance of $14.3 million represents 1.03% of portfolio loans and leases, as compared to the Allowance, as of December 31, 2011, of $12.8 million, which represented 0.98% of portfolio loans and leases as of that date. The increase in the Allowance, as a percentage of portfolio loans and leases, from December 31, 2011 to December 31, 2012, is reflective of the growth of the Corporation s loan portfolio, the increase in nonperforming loans and leases, as well as Management s analysis of qualitative factors affecting the loan portfolio.

As of December 31, 2012, the Corporation had other real estate owned (OREO) valued at $906 thousand, as compared to $549 thousand as of December 31, 2011. The four properties comprising the balance as of December 31, 2012 were the result of foreclosures of loans acquired from FKF and include one residential property, two commercial properties and one parcel of undeveloped land. All properties are recorded at their fair value less costs to sell.

As of December 31, 2012, the Corporation had $11.1 million of TDRs, of which $8.0 million are in compliance with the modified terms, and hence, excluded from non-performing loans and leases. As of December 31, 2011, the Corporation had $11.5 million of TDRs, of which $7.2 million were in compliance with the modified terms.

Impaired loans and leases are those for which it is probable that the Corporation will not be able to collect all scheduled principal and interest payments in accordance with the original terms of the loans and leases. Included in impaired loans and leases are non-accrual loans and leases and TDRs. Purchased credit-impaired loans are not included in impaired loan and lease totals. As of December 31, 2012, the Corporation had $22.0 million of impaired loans and leases, as compared to impaired loans and leases of $20.0 million as of December 31, 2011. Refer to Notes 5-H in the Notes to Consolidated Financial Statements for more information regarding the Corporation s impaired loans and leases.

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

The list below identifies certain key characteristics of the Corporation s loan and lease portfolio. Refer to the loan and lease portfolio tables in Note 5 in the Notes to Consolidated Financial Statements and page 49 of this MD&A under the heading Portfolio Loans and Leases for further details.

Portfolio Loans and Leases The Corporation s $1.4 billion loan and lease portfolio is predominantly based in the Corporation s traditional market areas of Chester, Delaware and Montgomery counties of Pennsylvania and in the greater Philadelphia area, none of which has experienced the real estate price appreciation and subsequent decline that many other areas of the country have experienced. The Corporation has observed a slight increase in new construction in the local area.

Concentrations The Corporation has a significant portion of its portfolio loans (excluding leases) in real estate-related loans. As of December 31, 2012, loans secured by real estate were $1.06 billion or 75.5% of the total loan portfolio of $1.40 billion. A predominant percentage of the Corporation s real estate exposure, both commercial and residential, is within Pennsylvania. The Corporation is aware of this concentration and mitigates this risk to the extent possible in many ways, including the underwriting and assessment of the borrower s capacity to repay, equity in the underlying real estate collateral and a review of a borrower s global cash flows. The Corporation has recourse against a substantial portion of the loans in the real estate portfolio.
In addition to loans secured by real estate, commercial and industrial loans comprise 20.9% of the total loan portfolio.

Construction The construction portfolio of $26.9 million accounts for 1.9% of the total loan and lease portfolio at December 31, 2012, a decrease of $25.9 million from $52.8 million as of December 31, 2011.
The Corporation s construction portfolio, which consists of residential site development loans, commercial construction loans and loans for construction of individual homes, had a delinquency rate, as of December 31, 2012, of 15.02%, as compared to a delinquency rate of 9.18% as of December 31, 2011.

Residential Mortgages Residential mortgage loans were $288.2 million as of December 31, 2012, a decrease of $18.3 million from the $306.5 million at December 31, 2011. The decrease was a result of the Corporation s strategic decision to sell a large percentage of originated residential mortgage loans in 2012 as compared to 2011. The residential mortgage portfolio had a delinquency rate of 1.15% as of December 31, 2012 as compared to 1.38% as of December 31, 2011. The Corporation believes it is well protected with its collateral position on this portfolio. The residential mortgage segment accounts for 20.6% of the total loan and lease portfolio as of December 31, 2012.

Commercial Mortgages The performance in the $546.4 million commercial mortgage portfolio, representing 39.1% of the total loan and lease portfolio as of December 31, 2012 is stable. This segment of the Corporation s loan and lease portfolio grew $127.2 million, or 30.4%, from December 31, 2011. The increase was partially attributable to the loans acquired from FBD, which totaled $51.7 million as of December 31, 2012. The delinquency rate in the portfolio as of December 31, 2011 was 0.30% as compared to 0.40% as of December 31, 2011. The borrowers comprising this segment of the portfolio generally have strong, global cash flows which have remained stable in this tough economic environment. The Corporation continues to be able to attract quality borrowers in the commercial real estate space as other banks retreat due to credit issues.

Commercial and Industrial The performance in the $291.6 million commercial and industrial portfolio, representing 20.9% of the total loan and lease portfolio at December 31, 2012, remains relatively stable with a delinquency rate of 1.02%. This segment of the total loan and lease portfolio increased $24.4 million, or 9.1%, from December 31, 2011, and consists of loans to privately held institutions, family businesses, non-profit institutions and private banking relationships. While certain of these loans are collateralized by real estate, others are collateralized by non-real estate business assets, including accounts receivable and inventory. The increase was largely attributable to the loans acquired from FBD, which totaled $22.3 million as of December 31, 2012.

Home Equity Loans and Lines of Credit The home equity loans and lines of credit portfolio has decreased $13.1 million or 6.3% from $207.9 million at December 31, 2011 to $194.9 million at December 31, 2012, as borrowers are taking advantage of low interest rates to refinance variable-rate products into fixed rate mortgage loans. The delinquency level in the portfolio is 1.14% at December 31, 2012, as compared to 1.33% as of December 31, 2011. The segment represents 13.9% of the total loan and lease portfolio as of December 31, 2012, and is primarily originated through the Corporation s branch network.

Consumer loans The Corporation s portfolio of consumer loans was $17.7 million as of December 31, 2012, an increase of $6.2 million from the $11.4 million at December 31, 2011. The consumer portfolio had a delinquency rate of 0.11% as of December 31, 2012 as compared to 0.32% as of December 31, 2011.

Leasing The lease portfolio balance as of December 31, 2012 of $32.8 million, showed an increase of $2.4 million from $30.4 million as of December 31, 2011, as new originations have begun to outpace repayments. As of December 31, 2012, the lease portfolio made up 2.3% of the total loan and lease portfolio, unchanged from the level as of December 31, 2011. Enhancements to the underwriting standards have continued to help reduce lease delinquencies from 1.2% at December 31, 2011 to 0.2% at December 31, 2012. In addition, these enhancements improved overall lease portfolio performance as net charge-offs declined each quarter since December 31, 2009. Net lease charge-offs were $72 thousand for the twelve months ended December 31, 2012, as compared to $487 thousand for the same period in 2011.

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

(dollars in thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Non-accrual loans and leases	$ 14,040	$ 14,315	$ 9,497	$ 6,246	$ 5,303
Loans 90 days or more past due and still accruing	728		10	668	504
Total non-performing loans and leases	14,768	14,315	9,507	6,914	5,807
Other real estate owned	906	549	2,527	1,025	
Total non-performing assets	$ 15,674	$ 14,864	$ 12,034	$ 7,939	$ 5,807
Troubled debt restructurings included in non-performing assets	$ 3,106	$ 4,300	$ 1,879	$ 2,274	$
TDRs in compliance with modified terms	8,008	7,166	4,693	1,622	
Total TDRs	$ 11,114	$ 11,466	$ 6,572	$ 3,896	$
Allowance for loan and lease losses to non-performing loans and leases	97.7%	89.1%	108.1%	150.8%	177.9%
Non-performing loans and leases to total loans and leases	1.06%	1.11%	0.79%	0.78%	0.65%
Allowance for loan losses to total portfolio loans and leases	1.03%	0.98%	0.86%	1.18%	1.15%
Non-performing assets to total assets	0.77%	0.84%	0.69%	0.64%	0.50%
Net loan and lease charge-offs/average loans and leases	0.18%	0.29%	0.96%	0.77%	0.40%
Period end portfolio loans and leases	$ 1,398,456	$ 1,295,392	$ 1,196,717	$ 885,739	$ 899,577
Average portfolio loans and leases	$ 1,307,140	$ 1,250,071	$ 1,037,158	$ 882,956	$ 851,752
Allowance for loan and lease losses	$ 14,425	$ 12,753	$ 10,275	$ 10,424	$ 10,332
Interest income that would have been recorded on impaired loans if the loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination	$ 1,417	$ 1,445	$ 838	$ 322	$ 141
Interest income on impaired loans that was included in net income for the period	$ 507	$ 550	$ 436	$ 41	$ 42

As of December 31, 2012, the Corporation is not aware of any loan or lease, other than those disclosed in the table above, for which Management has any serious doubt as to the borrower s ability to pay in accordance with the terms of the loan.

Summary of Changes in the Allowance for Loan and Lease Losses

(dollars in thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Balance, January 1	$ 12,753	$ 10,275	$ 10,424	$ 10,332	$ 8,124
Charge-offs:					
Consumer	(96)	(92)	(456)	(45)	(72)
Commercial and industrial	(458)	(633)	(7,019)	(1,933)	(4)
Real estate	(818)	(1,732)	(689)	(53)	
Construction	(1,131)	(1,174)	(135)	(382)	
Leases	(364)	(1,017)	(2,395)	(4,957)	(3,540)
Total charge-offs	(2,867)	(4,648)	(10,694)	(7,370)	(3,616)
Recoveries:					
Consumer	7	11	2	8	28
Commercial and industrial	143	307			
Real estate	79	190	15	1	24
Construction	15				
Leases	292	530	674	569	176
Total Recoveries	536	1,038	691	578	228
Net charge-offs	(2,331)	(3,610)	(10,003)	(6,792)	(3,388)
Provision for loan and lease losses	4,003	6,088	9,854	6,884	5,596
Balance, December 31	$ 14,425	$ 12,753	$ 10,275	$ 10,424	$ 10,332
Ratio of net charge-offs to average portfolio loans outstanding	0.18%	0.29%	0.96%	0.77%	0.40%

Allocation of Allowance for Loan and Lease Losses

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

	December 31,									
	2012		**2011**		**2010**		**2009**		**2008**	
(dollars in thousands)		**% Loans to Total Loans**		**% Loans to Total Loans**		**% Loans to Total Loans**		**% Loans to Total Loans**		**% Loans to Total Loans**
Allowance at end of period applicable to:										
Commercial mortgage	$ 3,907	39.1%	$ 3,165	32.4%	$ 2,534	32.2%	$ 2,027	29.9%	$ 2,131	27.8%
Home equity lines and loans	1,857	13.9	1,707	16.0	1,563	18.1	1,228	20.1	1,291	17.2
Residential mortgage	2,024	20.6	1,592	23.7	843	21.9	697	12.5	732	14.7
Construction	1,019	1.9	1,384	4.1	633	3.8	652	4.4	1,061	6.5
Commercial and industrial	4,637	20.9	3,816	20.6	3,565	20.0	3,801	26.3	3,093	26.3

Consumer	189	1.3	119	0.9	115	1.0	125	1.4	70	0.9
Leases	493	2.3	532	2.3	766	3.0	1,403	5.4	1,894	6.6
Unallocated	299		438		256		491		60	
Total	$ 14,425	100.0%	$ 12,753	100.0%	$ 10,275	100.0%	$ 10,424	100.0%	$ 10,332	100.0%

Non-Interest Income

2012 Compared to 2011

For the twelve months ended December 31, 2012, non-interest income was $46.4 million, an increase of $12.3 million, or 36.2% from the $34.1 million for the same period in 2011. Contributing to this increase was the $8.1 million, or 37.5%, increase in fees for wealth management services from $21.7 million for the twelve months ended December 31, 2011, to $29.8 million for the same period in 2012. In addition, the gain on sale of residential mortgage loans increased $4.2 million for the twelve months ended December 31, 2012 as compared to the same period in 2011.

The increase in wealth management fees is related to the May 15, 2012 acquisition of DTC, which initially increased the Corporation s wealth assets under management, administration, supervision and brokerage by $1.0 billion. In addition the Corporation experienced a full year s revenue related to the May 2011 PWMG acquisition as compared to only seven months revenue in 2011. Wealth assets under management, administration, supervision and brokerage increased $1.8 billion from $3.4 billion as of December 31, 2011 to $4.8 billion as of December 31, 2012.

The increase in the gain on sale of residential mortgage loans was largely related to the volume of loan sales and, to a lesser extent, an increase in the yield on the sale. The Corporation experienced a significant increase in demand for residential mortgage loans as the low interest rate created a significant demand for residential mortgage loan refinancings. For the twelve months ended December 31, 2012, the Corporation sold $204.8 million of residential mortgage loans, as compared to $81.5 million for the same period in 2011.

2011 Compared to 2010

For the twelve months ended December 31, 2011, non-interest income was $34.1 million, an increase of $4.8 million, or 16.2% from the $29.3 million for the same period in 2010. The primary contributor to this increase was the $6.2 million, or 39.8%, increase in fees for wealth management services from $15.5 million for the twelve months ended December 31, 2010, to $21.7 million for the same period in 2011. Partially offsetting the increase in wealth management fees were decreases of $2.2 million and $689 thousand in the gain on sale of residential mortgage loans and the gain on sale of available for sale securities, respectively, between the two periods.

The increase in wealth management fees is directly related to the May 27, 2011 Acquisition of PWMG, which initially increased the Corporation s wealth assets under management, administration, supervision and brokerage by $1.1 billion. Wealth assets under management, administration, supervision and brokerage increased $1.4 billion from $3.4 billion as of December 31, 2010 to $4.8 billion as of December 31, 2011.

The decrease in the gain on sale of residential mortgage loans was related to the volume of loan sales. The Corporation experienced a significant decrease in demand for residential mortgage loans following the refinancing boom that occurred in the second half of 2010. In addition to the lower volume of mortgage loan originations during 2011 as compared to 2010, a larger percentage of the loans originated in 2011 was retained in the Corporation s loan portfolio than was retained in 2010. For the twelve months ended December 31, 2011, the Corporation sold $81.5 million of residential mortgage loans, as compared to $156.4 million for the same period in 2010.

The decrease in the gain on sale of available for sale investments is related to the types of investments sold. Available for sale investments sold during the twelve months ended December 31, 2010 consisted largely of municipal obligations which yielded larger gains than the mortgage-backed securities and bond mutual funds sold during 2011.

Non-Interest Expense

2012 Compared to 2011

Non-interest expense for the twelve months ended December 31, 2012 was $74.9 million, an increase of $13.2 million, or 21.3%, as compared to the same period in 2011. The increase was comprised of increases of $6.3 million and $916 thousand in salaries and employee benefits and occupancy-related expenses, respectively, which were related to the staffing increase and office space additions that resulted from the DTC and PWMG acquisitions and, to a lesser extent, the FBD transaction, as well as the incentive-based compensation related to residential mortgage sales. In connection with the DTC and FBD transactions that occurred during 2012, due diligence and merger-related expenses increased by $2.1 million between the periods. Refer to in Note 22 in the Notes to Consolidated Financial Statements for further details regarding the $2.9 million increase in other operating expenses between the periods.

2011 Compared to 2010

Non-interest expense for the twelve months ended December 31, 2011 was $61.7 million, an increase of $3.5 million, or 6.1%, as compared to the same period in 2010. The increase was comprised of increases of $4.2 million and $1.7 million in salaries and employee benefits and occupancy-related expenses, respectively, which were related to the staffing increase and office space additions that resulted from both the FKF merger and the PWMG acquisition. In addition, the increase of $1.0 million in intangible asset amortization was directly related to the intangibles acquired from PWMG and FKF. The $1.6 million increase in other operating expense for the twelve months ended December 31, 2011, as compared to the same period in 2010 was related to the expanded branch network resulting from the FKF merger and the PWMG acquisition. Refer to in Note 22 in the Notes to Consolidated Financial Statements for further details regarding other operating expenses. These increases were substantially offset by the $5.2 million decrease in due diligence and merger-related expenses between the two periods.

Secondary Market Sold-Loan Repurchase Demands

In the course of originating residential mortgage loans and selling those loans in the secondary market, the Corporation makes various representations and warranties to the purchasers of the mortgage loans. Each residential mortgage loan originated by the Corporation is evaluated by an automated underwriting application, which verifies the underwriting criteria and certifies the loan s eligibility for sale to the secondary market. Any exceptions discovered during this process are remedied prior to sale. These representations and warranties also apply to underwriting the real estate appraisal opinion of value for the collateral securing these loans. Under the representations and warranties, failure by the Corporation to comply with the underwriting and appraisal standards could result in the Corporation s being required to repurchase the mortgage loan or to reimburse the investor for losses incurred (make whole requests) if such failure cannot be cured by the Corporation within the specified period following discovery. For the twelve months ended December 31, 2012 and 2011, the Corporation received a small number of investor repurchase demands and recorded a contingent liability, charged to other non-interest expense, related to those demands. During the twelve months ended December 31, 2010, no repurchase demands were received.

Income Taxes

Income taxes for the twelve months ended December 31, 2012 were $11.1 million as compared to $9.6 million and $4.5 million for the same periods in 2011 and 2010, respectively. The effective tax rate for the twelve month periods ended December 31, 2012, 2011 and 2010 was 34.3%, 32.7% and 32.9%, respectively. The increase in the effective tax rate for the twelve months ended December 31, 2012, as compared to the rate for the same period in 2011, was due to a decrease in the level of tax-free income from bank owned life insurance and municipal obligations, a reduction in the utilization of a capital loss carry-forward and other items.

Balance Sheet Analysis

Asset Changes

Total assets as of December 31, 2012 increased to $2.04 billion from $1.77 billion as of December 31, 2011. The increase was largely attributable to the $103.1 million increase in portfolio loans and leases and the $42.8 million increase in available for sale investment securities between the two dates. The increase in the loan portfolio was primarily related to the $76.6 million of loans acquired from FBD. In addition to the loan and investment increases, cash balances increased to $175.7 million as of December 31, 2012, an increase of $106.5 million from December 31, 2011.

Investment Portfolio The $42.8 million increase from December 31, 2011 to December 31, 2012 in available for sale investment securities was comprised of increases in mortgage-related securities and municipal obligations of $64.1 million and $22.0 million, respectively, and decreases in obligations of the U.S. government and agencies and other investments of $30.7 million and $12.6 million, respectively, between the dates. As of December 31, 2012 and December 31, 2011, 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.

The following table details the maturity and weighted average yield [3] of the investment portfolio [2]:

(dollars in thousands)	**Maturing During 2013**	**Maturing From 2014 Through 2017**	**Maturing From 2018 Through 2022**	**Maturing After 2022**	**Total**
Obligations of the U.S. government and agencies:					
Book value	$ 3,002	$ 19,252	$ 32,514	$ 18,415	$ 73,183
Weighted average yield	0.33%	0.69%	1.27%	3.21%	1.57%
State and political subdivisions[3]:					
Book value	4,219	17,903	8,122		30,244
Weighted average yield	0.61%	0.94%	1.58%		1.07%
Investment certificates of deposit:					
Book value	2,350				2,350
Weighted average yield	1.39%				1.39%
Other investment securities:					
Book value	1,000	900			1,900
Weighted average yield	1.43%	0.92%			1.18%
Mortgage-related securities[1]					
Book value			45,920	144,733	190,653
Weighted average yield			2.06%	2.06%	2.06%
Total book value	$ 10,571	$ 38,055	$ 86,556	$ 163,148	$ 298,330
Weighted average yield	0.78%	0.81%	1.72%	2.19%	1.83%

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

(2) *Excluded from the above table is the Corporation s $13.4 million investment in bond mutual funds, which has no stated maturity or constant stated yield.*

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

The following table details the book value of the available for sale investment portfolio as of the dates indicated:

	Book Value as of December 31,		
(dollars in thousands)	2012	2011	2010
Obligations of the U.S. government and agencies	$ 73,183	$ 104,252	$ 156,301
Obligations of the U.S. Treasury			5,011
Obligations of state and political subdivisions	30,244	8,210	32,013
Mortgage-backed securities	128,537	95,713	72,907
Collateralized mortgage obligations	62,116	32,418	2,068
Other investments	17,667	30,472	47,287
Total book value	$ 311,747	$ 271,065	$ 315,587

Portfolio Loans and Leases

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

			December 31,		
(dollars in thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Commercial mortgage	$ 546,358	$ 419,130	$ 385,615	$ 265,023	$ 249,730
Home equity lines & loans	194,861	207,917	216,853	177,863	154,576
Residential mortgage	288,212	306,478	261,983	110,653	132,536
Construction	26,908	52,844	45,403	38,444	58,446
Commercial & industrial	291,620	267,204	239,266	233,288	236,469
Consumer	17,666	11,429	12,200	12,717	8,518
Leases	32,831	30,390	35,397	47,751	59,302
Total portfolio loans and leases	1,398,456	1,295,392	1,196,717	885,739	899,577
Loans held for sale	3,412	1,588	4,838	3,007	3,024
	$ 1,401,868	$ 1,296,980	$ 1,201,555	$ 888,746	$ 902,601

The following table summarizes the loan maturity distribution and interest rate sensitivity as of December 31, 2012. Excluded from the table are residential mortgage, home equity lines and loans and consumer loans:

(dollars in thousands)	**Maturing During 2013**	**Maturing From 2014 Through 2017**	**Maturing After 2017**	**Total**
Loan portfolio maturity:				
Commercial and industrial	$ 97,173	$ 137,568	$ 56,879	$ 291,620
Construction	20,813	6,095		26,908
Commercial mortgage	28,559	204,658	313,141	546,358
Leases	3,272	29,539	20	32,831
Total	$ 149,817	$ 377,860	$ 370,040	$ 897,717
Interest sensitivity on the above loans:				
Loans with predetermined rates	$ 31,010	$ 291,420	$ 157,502	$ 479,932

Loans with adjustable or floating rates	118,807	86,440	212,538	417,785
Total	$ 149,817	$ 377,860	$ 370,040	$ 897,717

Goodwill and Other Intangible Assets Increases in goodwill from December 31, 2011 to December 31, 2012 included goodwill amounts of $4.9 million and $3.3 million related to the acquisition of DTC and the FBD transaction, respectively. In addition, the DTC acquisition resulted in intangible assets for customer lists, noncompetition covenants and trade name of $3.7 million, $1.4 million and $970 thousand, respectively. The FBD transaction produced a $320 thousand core deposit intangible asset. See Note 3 in the Notes to Consolidated Financial Statements for additional details.

FHLB Stock The Corporation s investment in stock issued by the FHLB decreased by $827 thousand, from December 31, 2011 to December 31, 2012, as the FHLB continued the redemption of excess stock from its member banks.

Mortgage Servicing Rights (MSRs) MSRs increased $450 thousand to $4.5 million as of December 31, 2012, from $4.0 million as of December 31, 2011. This increase was the result of $1.6 million of MSRs recorded during the twelve months ended December 31, 2012, partially offset by amortization of $961 thousand and impairment of $163 thousand during the period.

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

	For the Twelve Months Ended or as of December 31,		
(dollars in thousands)	**2012**	**2011**	**2010**
Mortgage originations	$ 253,725	$ 168,681	$ 221,904
Mortgage loans sold:			
Servicing retained	$ 201,352	$ 75,232	$ 148,418
Servicing released	3,461	6,230	8,028
Total mortgage loans sold	$ 204,813	$ 81,462	$ 156,446
Percentage of originated mortgage loans sold	80.7%	48.3%	70.5%
Servicing retained %	98.3%	92.4%	94.9%
Servicing released %	1.7%	7.6%	5.1%
Loans serviced for others	$ 595,317	$ 572,422	$ 605,485
Mortgage servicing rights	$ 4,491	$ 4,041	$ 4,925
Gain on sale of loans	$ 6,735	$ 2,517	$ 4,718
Loans servicing & late fees	$ 1,776	$ 1,824	$ 1,626
Amortization of MSRs	$ 966	$ 749	$ 923
Impairment of MSRs	$ 163	$ 786	$ 30
Gain on sale of loans as % of principal	3.29%	3.08%	3.02%

Liability Changes

Total liabilities as of December 31, 2012 increased $243.3 million, to $1.83 billion, from $1.59 billion as of December 31, 2011. The increase was primarily due to the $252.3 million increase in deposits which was partially offset by a $22.5 million decrease in subordinated debt between the respective dates.

Deposits Total deposits increased $252.3 million, or 18.3%, to $1.63 billion as of December 31, 2012 from $1.38 billion as of December 31, 2011. Partially contributing to the increase was the $27.1 million and $43.3 million of nonmaturity and time deposits, respectively, acquired in the FBD transaction. In addition, non-interest-bearing deposits experienced a sharp increase which was partially offset by a reduction in wholesale deposits.

The following table details deposits as of the dates indicated:

	As of December 31,				
(dollars in thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Interest-bearing checking	$ 270,279	$ 233,562	$ 234,107	$ 151,432	$ 135,513
Money market	559,470	393,729	327,824	229,836	142,707
Savings	129,091	130,613	134,163	101,719	54,333
Wholesale non-maturity	45,162	65,173	80,112	52,174	30,185
Wholesale time deposits	12,421	23,550	37,201	36,118	120,761
Time deposits	218,586	209,333	245,669	153,705	211,542
Interest-bearing deposits	$ 1,235,009	$ 1,055,960	$ 1,059,076	$ 724,984	$ 695,041
Non-interest-bearing deposits	399,673	326,409	282,356	212,903	174,449
Total deposits	$ 1,634,682	$ 1,382,369	$ 1,341,432	$ 937,887	$ 869,490

The following table summarizes the maturities of certificates of deposit of $100,000 or greater at December 31, 2012:

(dollars in thousands)	**Retail**	**Wholesale**
Three months or less	$ 55,081	$ 6,197
Three to six months	10,575	200
Six to twelve months	18,347	240
Greater than twelve months	12,589	5,413
Total	$ 96,592	$ 12,050

For more information regarding deposits, including average rate paid, refer to page 34 of this MD&A.

Borrowings Short-term borrowings as of December 31, 2012, which include only repurchase agreements, decreased $3.5 million, or 26.9%, from December 31, 2011. FHLB advances and other borrowings, which include a commercial mortgage loan and a five-year adjustable rate term loan, as of December 31, 2012, increased $13.5 million, or 9.1%, from December 31, 2011. During 2012, as FHLB advances matured, not all were replaced. Funds generated from deposit inflows were utilized for loan origination, reducing the need to increase borrowings from the FHLB. See the Liquidity Section of this MD&A on page 53 for further details on the Corporation s FHLB available borrowing capacity.

Debentures As of December 31, 2012, the Corporation had fully paid off its subordinated debentures which had a balance of $22.5 million as of December 31, 2011. The planned prepayment was part of a strategy aimed at reducing interest costs and resulted in prepayment penalties and unamortized issuance costs of $488 thousand. Refer to Note 12 in the Notes to Consolidated Financial Statements for further information.

Discussion of Segments

The Corporation has two operating segments: Wealth Management and Banking. These segments are discussed below. Detailed segment information appears in Note 28 in the Notes to Consolidated Financial Statements.

Wealth Management Segment Activity

The Wealth Management segment reported a pre-tax segment profit (PTSP) for the twelve months ended December 31, 2012 of $10.3 million, a $2.7 million, or 35.8%, increase from the same period in 2011. The increase in PTSP was primarily due to a $8.1 million, or 37.5%, increase in fees for wealth management services due, in large part, to the May 15, 2012 acquisition of DTC, which initially increased wealth management assets under management, administration, supervision and brokerage by $1.0 billion.

The Wealth Management segment reported a PTSP for the twelve months ended December 31, 2011 of $7.6 million, a $3.0 million, or 66.4%, increase from the same period in 2010. The increase in PTSP was primarily due to a $6.2 million, or 39.8%, increase in fees for wealth management services due, in large part, to the May 27, 2011 acquisition of PWMG, which initially increased wealth management assets under management, administration, supervision and brokerage by $1.1 billion.

The following table shows the Corporation s wealth management assets under management, administration, supervision and brokerage as of the dates indicated:

	As of December 31,		
(dollars in millions)	**2012**	**2011**	**2010**
Total wealth assets under management, administration, supervision and brokerage	$ 6,663.2	$ 4,831.6	$ 3,412.9

Banking Segment Activity

Banking segment data as presented in Note 28 in the accompanying Notes to Consolidated Financial Statements indicates a PTSP of $22.0 million in 2012, $21.6 million in 2011 and $8.9 million in 2010. See Components of Net Income on page 6 of this document for a discussion of the Banking Segment.

Capital and Regulatory Capital Ratios

Consolidated shareholders equity of the Corporation was $203.6 million, or 10.0% of total assets, as of December 31, 2012, as compared to $184.4 million, or 10.4% of total assets, as of December 31, 2011.

In April 2012, the Corporation filed a shelf registration statement (the Shelf Registration Statement) to replace its 2009 Shelf Registration Statement, which was set to expire in June 2012. This new 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 $150,000,000, in the aggregate.

The Corporation has in place under its Shelf Registration Statement a Dividend Reinvestment and Stock Purchase Plan (the Plan), which was amended and restated on April 27, 2012 primarily to increase the number of shares which can be issued by the Corporation from 850,000 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. A 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.

The Plan is intended to allow both existing shareholders and new investors to easily and conveniently increase their investment in the Corporation without incurring many of the fees and commissions normally associated with brokerage transactions. For the twelve months ended December 31, 2012 and 2011, the Corporation issued 108,918 and 448,377 shares, respectively, and raised $2.1 million and $8.3 million, respectively, through the Plan.

On May 27, 2011, in connection with the acquisition of PWMG, which is discussed in Note 2 in the Notes to Consolidated Financial Statements, the Corporation issued 322,101 unregistered shares of common stock, valued at $6.7 million. On September 30, 2011, the Corporation filed with the SEC a registration statement on Form S-3 (File No. 333-177109) to register for resale the 322,101 shares issued as part of the purchase price. The registration became effective November 18, 2011.

In connection with the FKF merger, the Corporation issued 1,630,053 common shares, valued at $26.5 million, to former shareholders of FKF. These shares were registered on an S-4 registration statement filed by the Corporation in January 2010.

On May 18, 2010, through a registered direct stock offering using securities registered on the Shelf Registration Statement, the Corporation issued 1,548,167 common shares, at a price of $17.00 per share, raising $24.7 million after deducting placement agent s fees and other offering expenses.

Accumulated other comprehensive loss, as of December 31, 2012 was $10.1 million, a decrease of $1.3 million from December 31, 2011. The primary cause of this decrease was related to the $2.1 million increase in the unrealized gains in available for sale investment securities.

As detailed in Note 26-E in the Notes to Consolidated Financial Statements, the Corporation s ratio of total capital to risk-weighted assets decreased from 13.74% as of December 31, 2011 to 12.02% as of December 31, 2012. This decrease was related to the $14.6 million increase, as of December 31, 2012 as compared to December 31, 2011, in goodwill and other intangible assets recorded in connection with the DTC and FBD transactions, in addition to the $22.5 million decrease in subordinated debt, which qualifies as tier 2 capital, between the dates.

The Corporation s and Bank s regulatory capital ratios and the minimum capital requirements to be considered Well Capitalized by banking regulators are displayed in Note 26 in the Notes to Consolidated Financial Statements. Both the Corporation and the Bank exceed the required capital levels to be considered Well Capitalized by their respective regulators at the end of each period presented.

Liquidity

The Corporation has significant sources and availability of liquidity at December 31, 2012 as discussed in this section. The liquidity position is managed on a daily basis as part of the daily settlement function and on a monthly basis as part of the asset liability management process. The Corporation s primary liquidity is maintained by managing its deposits along with the utilization of purchased federal funds, borrowings from the FHLB and utilization of other wholesale funding sources. Secondary sources of liquidity include the sale of investment securities and certain loans in the secondary market.

Other wholesale funding sources include certificates of deposit from brokers, including CDARS, PLGIT, IND and IDC, generally available in blocks of $1.0 million or more. Funds obtained through these programs totaled $12.4 million as of December 31, 2012.

As of December 31, 2012, the maximum borrowing capacity with the FHLB was $726.9 million, with an unused borrowing availability of $560.7 million. Borrowing availability at the Federal Reserve was $65.2 million, and overnight Fed Funds lines, consisting of lines from six banks, totaled $64.0 million. On a quarterly basis, the Corporation s Asset Liability Committee reviews the Corporation s liquidity needs and reports its findings to the Risk Management Committee of the Board of Directors.

As of December 31, 2012 the Corporation held $10.8 million of FHLB stock as required by the borrowing agreement between the FHLB and the Corporation.

The Corporation has an agreement with IDC to provide up to $5 million, plus interest of money market deposits at an agreed upon rate currently at 0.45%. The Corporation had approximately $5.2 million in balances as of December 31, 2012 under this program. The Corporation can request an increase in the agreement amount as it deems necessary.

The Corporation s investment portfolio of $316.6 million as of December 31, 2012 was approximately 15.6% of total assets. Some of these investments were in short-term, high-quality, liquid investments to earn more than the 25 basis points currently earned on Fed Funds. The Corporation s policy is to keep the investment portfolio at a minimum of 10% of total assets. The investment portfolio provides the Corporation with the opportunity to utilize the securities to borrow additional funds through the FHLB, Federal Reserve or through other repurchase agreements.

The Corporation continually evaluates its borrowing capacity and sources of liquidity. The Corporation believes that it has sufficient capacity to fund expected 2013 earning asset growth with wholesale sources, along with deposit growth from its expanded branch system.

In November 2010, the Federal Deposit Insurance Corporation, (FDIC) approved Section 343 of the Dodd-Frank Act providing temporary unlimited coverage for non-interest-bearing transaction accounts. The term of this unlimited coverage ended on December 31, 2012.

Off Balance Sheet Risk

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

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

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

The following chart presents the off-balance sheet commitments of the Corporation as of December 31, 2012, listed by dates of funding or payment:

(dollars in millions)	**Total**	**Within 1 Year**	**2 - 3 Years**	**4 - 5 Years**	**After 5 Years**
Unfunded loan commitments	$ 366.6	$ 206.4	$ 52.8	$ 13.7	$ 93.7
Standby letters of credit	22.2	10.1	12.1		
Total	$ 388.8	$ 216.5	$ 64.9	$ 13.7	$ 93.7

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

Contractual Cash Obligations of the Corporation as of December 31, 2012

(dollars in millions)	Total	Within 1 Year	2 - 3 Years	4 - 5 Years	After 5 Years
Deposits without a stated maturity	$ 1,403.7	$ 1,403.7	$	$	$
Wholesale and retail certificates of deposit	231.0	188.2	32.6	10.1	0.1
Short-term borrowings	9.4	9.4			
FHLB advances and other borrowings	161.3	35.4	36.9	67.4	21.6
Operating leases	52.9	3.0	6.1	5.7	38.1
Purchase obligations	12.0	3.7	5.6	2.1	0.6
Non-discretionary pension contributions	0.3	0.3			
Total	$ 1,870.6	$ 1,643.7	$ 81.2	$ 85.3	$ 60.4

Other Information

Regulatory Matters and Pending Legislation

On June 7, 2012, the Federal Reserve approved proposed rules that would substantially amend the regulatory risk-based capital rules applicable to the Corporation and the Bank. The FDIC and the OCC subsequently approved these proposed rules on June 12, 2012. The proposed rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. Basel III refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements. The comment period for the proposed rules has ended and a final ruling is pending.

The proposed rules include new risk-based capital and leverage ratios, which would be phased in from 2013 to 2019, and would refine the definition of what constitutes capital for purposes of calculating those ratios. The proposed new minimum capital level requirements applicable to the Corporation and the Bank under the proposals would be:

(i) a new common equity Tier 1 capital ratio of 4.5%;

(ii) a Tier 1 capital ratio of 6% (increased from 4%);

(iii) a total capital ratio of 8% (unchanged from current rules); and

(iv) a Tier 1 leverage ratio of 4% for all institutions.

The proposed rules would also establish a capital conservation buffer of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios:

(i) a common equity Tier 1 capital ratio of 7.0%;

(ii) a Tier 1 capital ratio of 8.5%; and

(iii) a total capital ratio of 10.5%.

The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions.

Basel III provided discretion for regulators to impose an additional buffer, the countercyclical buffer, of up to 2.5% of common equity Tier 1 capital to take into account the macro-financial environment and periods of excessive credit growth. However, the proposed rules permit the countercyclical buffer to be applied only to advanced approach banks (i.e. , banks with $250 billion or more in total assets or $10 billion or more in total foreign exposures), which currently excludes the Corporation and the Bank. The proposed rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which would be phased out over time.

The federal bank regulatory agencies also proposed revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions would take effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions would be required to meet the following increased capital level requirements in order to qualify as well capitalized:

(i) a new common equity Tier 1 capital ratio of 6.5%;

(ii) a Tier 1 capital ratio of 8% (increased from 6%);

(iii) a total capital ratio of 10% (unchanged from current rules); and

(iv) a Tier 1 leverage ratio of 5% (increased from 4%).

The proposed rules set forth certain changes for the calculation of risk-weighted assets, which we would be required to utilize beginning January 1, 2015. The standardized approach proposed rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses:

(i) proposed alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act;

(ii) revisions to recognition of credit risk mitigation;

(iii) rules for risk weighting of equity exposures and past due loans;

(iv) revised capital treatment for derivatives and repo-style transactions; and

(v) disclosure requirements for top-tier banking organizations with $50 billion or more in total assets that are not subject to the advance approach rules that apply to banks with greater than $250 billion in consolidated assets.

The Dodd-Frank Act expanded the base for FDIC insurance assessments, requiring that assessments be based on the average consolidated total assets less tangible equity capital of a financial institution. On February 7, 2011, the FDIC approved a final rule to implement the foregoing provision of the Dodd-Frank Act and to make other changes to the deposit insurance assessment system applicable to insured depository institutions with over $10 billion in assets. Among other things, the final rule eliminated risk categories and the use of long-term debt issuer ratings in calculating risk-based assessments, and instead implemented a scorecard method, combining CAMELS ratings and certain forward-looking financial measures to assess the risk an institution poses to the Deposit Insurance Fund. The final rule also revised the assessment rate schedule for large institutions and highly complex institutions to provide assessments ranging from 2.5 to 45 basis points. Except as specifically provided, the final rule took effect for the quarter beginning April 1, 2011.

Effects of Inflation

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

Effect of Government Monetary Policies

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

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

Special Cautionary Notice Regarding Forward Looking Statements

Certain of the statements contained in this Item may constitute forward-looking statements for the purposes of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended, and may involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Bryn Mawr Bank Corporation (the Corporation) to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements include statements with respect to the Corporation s financial goals, business plans, business prospects, credit quality, credit risk, reserve adequacy, liquidity, origination and sale of residential mortgage loans, mortgage servicing rights, the effect of changes in accounting standards, and market and pricing trends loss. The words may , would , could , will , likely , expect, anticipate, intend , estimate , plan , fore believe and similar expressions are intended to identify such forward-looking statements. The Corporation s actual results may differ materially from the results anticipated by the forward-looking statements due to a variety of factors, including without limitation:

- 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;

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

the Corporation s 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;

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;

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

All written or oral forward-looking statements attributed to the Corporation are expressly qualified in their entirety by use of the foregoing cautionary statements. All forward-looking statements included in this Annual Report and incorporated documents are based upon the Corporation s beliefs and assumptions as of the date of this Annual 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 Annual Report or incorporated documents might not occur and you should not put undue reliance on any forward-looking statements. Some of these and other factors are discussed in the section entitled Risk Factors elsewhere in this Form 10-K.

ITEM 7A. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Bryn Mawr Bank Corporation:

We have audited the accompanying consolidated balance sheets of Bryn Mawr Bank Corporation and subsidiaries (the Corporation) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders equity for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2013 expressed an unqualified opinion on the effectiveness of the Corporation s internal control over financial reporting.

Philadelphia, Pennsylvania

March 15, 2013

Consolidated Balance Sheets

(dollars in thousands)	**December 31, 2012**	**December 31, 2011**
Assets		
Cash and due from banks	$ 16,203	$ 11,771
Interest bearing deposits with banks	159,483	57,369
Cash and cash equivalents	175,686	69,140
Investment securities available for sale, at fair value (amortized cost of $311,747 and $271,065 as of December 31, 2012 and December 31, 2011 respectively)	316,614	273,822
Investment securities, trading	1,447	1,436
Loans held for sale	3,412	1,588
Portfolio loans and leases	1,398,456	1,295,392
Less: Allowance for loan and lease losses	(14,425)	(12,753)
Net portfolio loans and leases	1,384,031	1,282,639
Premises and equipment, net	31,170	29,328
Accrued interest receivable	5,955	6,061
Deferred income taxes	12,303	13,845
Mortgage servicing rights	4,491	4,041
Bank owned life insurance	19,862	19,434
FHLB stock	10,761	11,588
Goodwill	32,897	24,689
Intangible assets	21,998	18,014
Other investments	4,346	4,107
Other assets	10,912	13,641
Total assets	$ 2,035,885	$ 1,773,373
Liabilities		
Deposits:		
Non-interest-bearing	$ 399,673	$ 326,409
Interest-bearing	1,235,009	1,055,960
Total deposits	1,634,682	1,382,369
Short-term borrowings	9,403	12,863
FHLB advances and other borrowings	161,315	147,795
Subordinated debentures		22,500
Accrued interest payable	1,233	1,592
Other liabilities	25,688	21,875
Total liabilities	1,832,321	1,588,994
Shareholders equity		
Common stock, par value $1; authorized 100,000,000 shares; issued 16,390,608 and 16,103,981 shares as of December 31, 2012 and December 31, 2011, respectively, and outstanding of 13,412,690 and 13,106,353 as of December 31, 2012 and December 31, 2011, respectively	16,390	16,104
Paid-in capital in excess of par value	89,137	84,425
Less: Common stock in treasury at cost 2,977,918 and 2,997,628 shares as of December 31, 2012 and December 31, 2011, respectively	(30,745)	(31,027)
Accumulated other comprehensive loss, net of tax benefit	(10,078)	(11,365)
Retained earnings	138,860	126,242

Total shareholder s equity	203,564	184,379
Total liabilities and shareholders equity	$ 2,035,885	$ 1,773,373

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

Consolidated Statements of Income

(dollars in thousands, except share and per share data)	Twelve Months Ended December 31, 2012	2011	2010
Interest income:			
Interest and fees on loans and leases	$ 68,891	$ 69,321	$ 59,324
Interest on cash and cash equivalents	127	115	179
Interest on investment securities:			
Taxable	3,970	4,488	3,653
Non-taxable	208	226	749
Dividends	127	412	992
Total interest income	73,323	74,562	64,897
Interest expense on:			
Deposits	4,032	5,787	6,101
Short-term borrowings	21	25	16
FHLB advances and other borrowings	3,604	3,676	4,907
Subordinated debentures	931	1,123	1,129
Junior subordinated debentures		1,050	493
Total interest expense	8,588	11,661	12,646
Net interest income	64,735	62,901	52,251
Provision for loan and lease losses	4,003	6,088	9,854
Net interest income after provision for loan and lease losses	60,732	56,813	42,397
Non-interest income:			
Fees for wealth management services	29,798	21,669	15,499
Service charges on deposits	2,477	2,495	2,307
Loan servicing and other fees	1,776	1,824	1,626
Net gain on sale of residential mortgage loans	6,735	2,517	4,718
Net gain on sale of available for sale securities	1,415	1,783	2,472
Net loss on sale of other real estate owned (OREO)	(86)	(97)	(114)
Bank owned life insurance (BOLI) income	428	462	266
Other operating income	3,843	3,406	2,525
Total non-interest income	46,386	34,059	29,299
Non-interest expenses:			
Salaries and wages	33,131	28,084	24,829
Employee benefits	8,127	6,889	5,984
Occupancy and bank premises	5,874	5,176	4,257
Furniture, fixtures, and equipment	3,727	3,509	2,778
Advertising	1,309	1,166	1,142
Amortization of mortgage servicing rights	966	749	923
Net impairment of mortgage servicing rights	163	786	30
Amortization of intangible assets	2,411	1,490	484
FDIC insurance	970	1,186	1,551
Due diligence and merger-related expenses	2,629	537	5,714
Professional fees	2,868	2,311	2,140
Other operating expenses	12,726	9,846	8,374
Total non-interest expenses	74,901	61,729	58,206
Income before income taxes	32,217	29,143	13,490
Income tax expense	11,070	9,541	4,444

Net income	$ 21,147	$ 19,602	$ 9,046
Basic earnings per common share	$ 1.62	$ 1.55	$ 0.85
Diluted earnings per common share	$ 1.60	$ 1.54	$ 0.85
Dividends declared per share	$ 0.64	$ 0.60	$ 0.56
Weighted-average basic shares outstanding	13,090,110	12,659,824	10,680,377
Dilutive shares	151,736	82,313	12,312
Adjusted weighted-average diluted shares	13,241,846	12,742,137	10,692,689

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	**Twelve Months Ended December 31,**		
	2012	**2011**	**2010**
Net income	$ 21,147	$ 19,602	$ 9,046
Other comprehensive income (loss):			
Net unrealized gains arising during the period, net of tax expense of $1,233, $1,021 and $877, respectively	2,292	1,897	1,628
Less: reclassification adjustment for net gains on sales realized in net income, net of tax expense of $494, $624, and $865, respectively	(920)	(1,159)	(1,607)
Unrealized investment gains, net of tax expense of $739, $397 and $12, respectively	1,372	738	21
Change in fair value of hedging instruments, net of tax benefit of $(13), $0 and $0, respectively	(23)		
Change in unfunded pension liability, net of tax (benefit) expense of $(33), $(2,879) and $73, respectively	(62)	(5,346)	135
Total other comprehensive income (loss)	1,287	(4,608)	156
Total comprehensive income	$ 22,434	$ 14,994	$ 9,202

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

Consolidated Statements of Cash Flows

(*dollars in thousands*)	**Twelve Months Ended December 31, 2012**	**2011**	**2010**
Operating activities:			
Net Income	$ 21,147	$ 19,602	$ 9,046
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	4,003	6,088	9,854
Provision for depreciation and amortization	6,713	5,688	3,877
Net gain on sale of available for sale securities	(1,415)	(1,783)	(2,472)
Net gain on sale of residential mortgages	(6,735)	(2,517)	(4,718)
Stock based compensation cost	1,283	876	539
Amortization and net impairment of mortgage servicing rights	1,129	1,535	953
Net accretion of fair value adjustments	(1,892)	(2,037)	(2,149)
Amortization of intangible assets	2,411	1,490	484
Impairment of other real estate owned (OREO)		251	381
Net loss on sale of OREO	86	97	114
Net increase in cash surrender value of bank owned life insurance (BOLI)	(428)	(462)	(266)
Other, net	297	3,834	4,783
Loans originated for resale	(206,637)	(78,212)	(157,607)
Proceeds from loans sold	209,969	83,328	159,784
Contributions to pension plans		(10,000)	
(Benefit) provision for deferred income taxes	(505)	3,310	(304)
Change in income taxes payable/receivable	3,437	(3,270)	687
Change in accrued interest receivable	355	409	(445)
Change in accrued interest payable	(575)	(1,701)	(544)
Net cash provided by operating activities	32,643	26,526	21,997
Investing activities:			
Purchases of investment securities	(223,019)	(216,948)	(336,068)
Proceeds from maturity of investment securities and paydowns of mortgage-related securities	48,576	36,532	18,836
Proceeds from sale of investment securities available for sale	40,640	89,661	88,017
Proceeds from redemptions of FHLB stock	827		
Proceeds from calls of investment securities	89,992	137,410	212,600
Net change in other investments	(239)	(619)	2
Net portfolio loan and lease originations	(28,082)	(101,900)	(49,585)
Purchases of premises and equipment	(4,048)	(2,612)	(2,084)
Acquisitions, net of cash acquired	(15,951)	(13,367)	44,763
Capitalize costs to OREO	(61)		(44)
Proceeds from sale of OREO	567	2,793	1,371
Net cash used by investing activities	(90,798)	(69,050)	(22,192)
Financing activities:			
Change in deposits	182,368	41,482	83,341
Change in short-term borrowings	(3,460)	2,812	(3,036)
Dividends paid	(8,529)	(7,679)	(5,916)
Change in FHLB advances and other borrowings	13,962	(11,797)	(91,028)
Repayment of subordinated debentures	(22,500)		
Repayment of junior subordinated debentures		(12,028)	
Payment of contingent consideration for business combinations	(1,050)		
Tax benefit from exercise of stock options	100	141	60
Excess tax benefit from stock-based compensation	12		
Proceeds from sale of treasury stock from deferred compensation plans	317		
Net purchase of treasury stock for deferred compensation plans		(42)	(35)
Proceeds from issuance of common stock	2,118	8,325	26,688
Proceeds from exercise of stock options	1,363	966	288
Net cash provided by financing activities	164,701	22,180	10,362
Change in cash and cash equivalents	106,546	(20,344)	10,167

Cash and cash equivalents at beginning of period	69,140	89,484	79,317
Cash and cash equivalents at end of period	$ 175,686	$ 69,140	$ 89,484
Supplemental cash flow information:			
Cash paid during the year for:			
Income taxes	$ 8,092	$ 9,213	$ 3,627
Interest	8,947	13,362	11,340
Supplemental cash flow information:			
Available for sale securities purchased, not settled	$ 255	$	$
Change in other comprehensive income	1,980	(7,090)	240
Change in deferred tax due to change in comprehensive income	693	2,482	84
Transfer of loans to other real estate owned	949	1,163	3,124
Issuance of shares and options for acquisitions		6,661	26,476
Acquisition of noncash assets and liabilities:			
Assets acquired	90,853	20,339	438,989
Liabilities assumed	74,902		458,736

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

Consolidated Statement of Changes in Shareholders Equity

(dollars in thousands, except share information)

	For the Years Ended December 31, 2010, 2011 and 2012						
	Shares of Common Stock Issued	**Common Stock**	**Paid-in Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Total Shareholders Equity**
Balance December 31, 2009	11,786,084	$ 11,786	$ 17,705	$ (29,932)	$ (6,913)	$ 111,290	$ 103,936
Cumulative effect of correction of immaterial accounting error				(1,117)		(101)	(1,218)
Adjusted balance, December 31, 2009	11,786,084	11,786	17,705	(31,049)	(6,913)	111,189	102,718
Net income						9,046	9,046
Dividends declared, $0.56 per share						(5,916)	(5,916)
Other comprehensive income, net of tax expense of $84					156		156
Stock based compensation			539				539
Tax benefit from gains on stock option exercise			60				60
Retirement of treasury stock	(5,186)	(5)	(46)	51			
Net purchase of treasury stock for deferred compensation plans				(35)			(35)
Common stock issued:							
Dividend Reinvestment and Stock Purchase Plan	119,175	119	1,918				2,037
Share-based awards and options exercises	31,425	32	354				386
Acquisitions	1,630,053	1,630	24,846				26,476
Registered direct common stock offering	1,548,167	1,548	23,022				24,570
Balance December 31, 2010	15,109,718	15,110	68,398	(31,033)	(6,757)	114,319	160,037
Net income						19,602	19,602
Dividends declared, $0.60 per share						(7,679)	(7,679)
Other comprehensive loss, net of tax benefit of $2,482					(4,608)		(4,608)
Stock based compensation			876				876
Tax benefit from gains on stock option exercise			141				141
Retirement of treasury stock	(4,936)	(5)	(43)	48			
Net purchase of treasury stock for deferred compensation plans				(42)			(42)
Common stock issued:							
Dividend Reinvestment and Stock Purchase Plan	448,377	448	7,877				8,325
Share-based awards and options exercises	228,893	229	837				1,066
Acquisitions	321,929	322	6,339				6,661
Balance December 31, 2011	16,103,981	16,104	84,425	(31,027)	(11,365)	126,242	184,379
Net income						21,147	21,147
Dividends declared, $0.64 per share						(8,529)	(8,529)
Other comprehensive income, net of tax expense of $693					1,287		1,287
Stock based compensation			1,283				1,283
Tax benefit from gains on stock option exercise			100				100
Tax adjustment for vested stock-based compensation and exercised options			12				12
Retirement of treasury stock	(4,249)	(4)	(40)	44			
			79	238			317

Net sale of treasury stock from deferred compensation plans							
Common stock issued:							
Dividend Reinvestment and Stock Purchase Plan	108,918	109	2,009				2,118
Share-based awards and options exercises	181,958	181	1,269				1,450
Balance December 31, 2012	16,390,608	$ 16,390	$ 89,137	$ (30,745)	$ (10,078)	$ 138,860	$ 203,564

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

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

A. Nature of Business

The Bryn Mawr Trust Company (the Bank) received its Pennsylvania banking charter in 1889 and is a member of the Federal Reserve System. In 1986, Bryn Mawr Bank Corporation (the Corporation) was formed and on January 2, 1987, the Bank became a wholly-owned subsidiary of the Corporation. The Bank and Corporation are headquartered in Bryn Mawr, Pennsylvania, a western suburb of Philadelphia. The Corporation and its subsidiaries provide wealth management, community banking, residential mortgage lending, insurance and business banking services to its customers through 19 full service branches and seven retirement community offices throughout Montgomery, Delaware and Chester counties in Pennsylvania and New Castle county in Delaware. In 2008, the Corporation opened the Bryn Mawr Trust Company of Delaware, a limited-purpose trust company in Greenville, Delaware, to further its long-term growth strategy, and diversify its asset base and client accounts. The common stock of the Corporation trades on the NASDAQ Stock Market (NASDAQ) under the symbol BMTC.

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

On May 15, 2012, the acquisition of Davidson Trust Company (DTC) by the Corporation was completed. The acquisition of DTC initially increased the Corporation s Wealth Management Division assets under management by $1.0 billion. The structure of the Corporation s existing Wealth Management segment allowed for the immediate integration of DTC and was able to take advantage of the various synergies that exist between the two companies.

On May 27, 2011, the acquisition of the Private Wealth Management Group of the Hershey Trust Company (PWMG) by the Corporation was completed. The acquisition of PWMG initially increased the Corporation s Wealth Management Division assets under management by $1.1 billion. In addition, the acquisition enabled the Wealth Management Division to extend into central Pennsylvania by continuing to operate the former PWMG offices located in Hershey, Pennsylvania.

On July 1, 2010, the merger of First Keystone Financial, Inc. (FKF) with and into the Corporation, and the two step merger of FKF s wholly-owned subsidiary, First Keystone Bank with and into the Bank, were completed. The acquisition of FKF, a federally chartered thrift institution with assets of approximately $480 million, enabled the Corporation to increase its regional footprint with the addition of eight full service branch locations, primarily in Delaware County, Pennsylvania.

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

B. Basis of Presentation

The accounting policies of the Corporation conform to U.S. generally accepted accounting principles (GAAP) and predominant practices within the banking industry.

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

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

Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that in 2013, actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Amounts subject to significant estimates are items such as the allowance for loan and lease losses and lending related commitments, goodwill and intangible assets, pension and post-retirement obligations, the fair value of financial instruments and other-than-temporary impairments. Among other effects, such changes could result in future impairments of investment securities, goodwill and intangible assets and establishment of allowances for loan losses and lending-related commitments as well as increased pension and post-retirement expense.

Correction of an Immaterial Accounting Error

In September 2012, the Corporation identified an immaterial accounting error related to two of its deferred compensation plans. The provisions of the deferred compensation plans enabled certain executives and directors to have bonus payments and director s fees deferred, and allowed the participants to direct the investment of the deferred amounts. One of the investment choices offered to the participants is the Corporation s common stock. This stock, along with the participants other investment choices, were placed in a trust which is owned by the Corporation. The carrying value of this trust is periodically adjusted to reflect changes in its fair market value. The portion of this trust comprised of the Corporation s common stock was incorrectly reported as an asset on the Corporation s balance sheet. The stock held in the trust should have been classified as treasury stock and reported in the shareholders equity section of the Corporation s balance sheet, at cost.

The resulting corrections involved adjustments to assets and shareholders equity, as well as adjustments to other operating expense, as changes in the fair market value of the Corporation s common stock held in the trust are charged to deferred compensation expense, a component of other operating expense.

In addition to the reclassification between assets and shareholders equity, there were immaterial reclassifications among assets related to the deferred compensation trust and other trusts that had previously been classified as other assets and other investments and are now classified as trading securities and available-for-sale investment securities. An immaterial reclassification to interest income on investment securities was related to this reclassification of investments. All periods presented in the tables accompanying this report have been revised to reflect these corrections.

The following tables detail the revisions to the previously reported information:

Income Statement Corrections

	For the Twelve Months Ended December 31, 2010		
(dollars in thousands, except per share data)	Revised Amount	Originally Reported Amount	Adjustment
Interest on investment securities taxable	$ 3,653	$ 3,552	$ 101
Other operating income	$ 2,525	$ 2,601	$ (76)
Other operating expense	$ 8,374	$ 8,153	$ 221
Income before income taxes	$ 13,490	$ 13,686	$ (196)
Income tax expense	$ 4,444	$ 4,512	$ (68)
Net income	$ 9,046	$ 9,174	$ (128)
Weighted-average basic shares outstanding	10,680,377	10,765,657	(85,280)
Weighted-average diluted shares outstanding	10,692,689	10,777,969	(85,280)
Basic earnings per common share	$ 0.85	$ 0.85	$
Diluted earnings per common share	$ 0.85	$ 0.85	$

	For the Twelve Months Ended December 31, 2011		
(dollars in thousands, except per share data)	Revised Amount	Originally Reported Amount	Adjustment
Interest on investment securities taxable	$ 4,488	$ 4,365	$ 123
Other operating income	$ 3,406	$ 3,497	$ (91)
Other operating expense	$ 9,846	$ 9,643	$ 203
Income before income taxes	$ 29,143	$ 29,314	$ (171)
Income tax expense	$ 9,541	$ 9,601	$ (60)
Net income	$ 19,602	$ 19,713	$ (111)
Weighted-average basic shares outstanding	12,659,824	12,746,346	(86,522)
Weighted-average diluted shares outstanding	12,742,137	12,828,659	(86,522)
Basic earnings per common share	$ 1.55	$ 1.55	$
Diluted earnings per common share	$ 1.54	$ 1.54	$

	For the Three Months Ended March 31, 2012 (unaudited)		
(dollars in thousands, except per share data)	Revised Amount	Originally Reported Amount	Adjustment
Interest on investment securities taxable	$ 1,103	$ 1,084	$ 19
Other operating income	$ 1,096	$ 1,111	$ (15)
Other operating expense	$ 2,841	$ 2,588	$ 253
Income before income taxes	$ 7,777	$ 8,026	$ (249)
Income tax expense	$ 2,704	$ 2,791	$ (87)
Net income	$ 5,073	$ 5,235	$ (162)
Weighted-average basic shares outstanding	12,979,746	13,065,885	(86,139)
Weighted-average diluted shares outstanding	13,127,248	13,213,387	(86,139)