Bryn Mawr Bank Corporation

1999 Annual Report

Bryn Mawr Bank Corporation

Consolidated Financial Highlights

For the year	1999	1998*	Change	Five-Year Compound Growth Rate
DOLLARS IN THOUSANDS				
Net interest income	$ 22,460	$ 20,106	12%	8%
Other income	18,610	15,076	23	17
Other expenses	28,980	24,695	17	11
Net income	7,961	6,857	16	14

At year end				
DOLLARS IN THOUSANDS				
Total assets	$436,820	$391,840	11%	6%
Total net loans	334,539	277,085	21	8
Total deposits	371,068	342,357	8	4
Shareholders' equity	46,719	42,221	11	11

Per common share				
Earnings per common share	$ 1.83	$ 1.58	16%	15%
Earnings per common share–assuming dilution	$ 1.75	$ 1.51	16	14
Dividends declared	0.60	0.465	29	30
Book value	10.74	9.81	9	12
Closing price	23.88	27.25	(12)	25

Selected ratios				
Return on average assets	1.99%	1.91%	—	—
Return on average shareholders' equity	17.97%	17.06%	—	—

*Reclassified for comparitive purposes.

Dear Shareholders:

The Corporation's financial performance this year was solid; net income increased 16%. Our results show very well, especially against traditional banks. What we have accomplished in the way of expanding our revenue streams separates us from all but a few banking institutions. Revenue from non-interest related banking services, a key indicator of our Bank's development as a diverse financial service operation, amounted to $18.6 million this past year. Net interest income, traditional banking profit, was $22.5 million. So, 45% of our revenue is now fee-based. We've grown revenues from these fees at a 15% average annual rate over the last ten years.

And, though we've grown, we continue to possess a unique combination of three elements which separate us from every other banking institution I know of: our people, our size, and the breadth of our services lines.

We've a wide range of financial services in place: financial planning, investment management, personal financial accounting, insurance, tax advice, and foundation management, all in addition to traditional banking. Assembling the services has not been difficult; meshing them into cohesive offerings, understandable to our customers, has proved more challenging than I imagined. We've still much to do to bring the service offerings we have to our clients in a seamless, thoughtful way.

From left:
Robert L. Stevens
Diane C. McDonald
Samuel C. Wasson, Jr.

The year's activities were dominated by two controlling factors. First, was the addition of two new subsidiaries: Joseph W. Roskos & Co., a personal financial accounting and tax firm which is the area's premier Family Office service provider; and CDC Capital Management, Inc., a registered investment advisory firm. The second factor was the departure of several in our Investment Management and Trust Division.

The departure of these employees, and the loss of business that resulted, coincided with the shift in culture which I initiated in the fall of 1998, and the commitment I've asked from everyone. I intend to create an organization fully aligned with client-oriented service and professional excellence, one which encourages open, candid communication, and trustworthy relationships, both within the Corporation and with clients.

To accomplish our organizational development, I have engaged a professional consulting firm, which we have been working with for over a year, to create a "Learning Organization." Happily, I can see results, both within me, and in those around me, but a bumpy road it is!

Joseph W. Roskos, who joined the Corporation in January as CEO of Joseph W. Roskos & Co., our Family Office, has responsibility for our Trust Division and has added five seasoned professionals to our Trust Administration staff, the backbone of the division. Three investment professionals have been hired in 1999. And to strengthen the Investment Management services we offer—through Investment Counsellors of Bryn Mawr, the Trust Division, CDC Capital Management, Inc., and Bryn Mawr Brokerage Company, Inc.—at year end, I appointed Thomas M. Petro to lead that effort. Tom came to the Bank ten years ago and has proven to be an excellent manager.

The quality of our investment management services has remained consistent. We have been a large-cap growth style manager since 1988, and have continued to provide a fine investment performance, as measured by our flagship fund offering which advanced 25% this year, exceeding the Standard & Poor 500 average. We have, over many years, delivered consistently fine investment performance.

So, we had an excellent year, and, more importantly, we're making headway despite our growing pains. I'll keep on pressing to have us develop, learn, and grow. I've been CEO for twenty years, and an employee for forty. My goal is to see that Bryn Mawr Bank Corporation becomes one of the country's premier providers of personal financial service to wealthy families. Members of the Board and I are working on my succession to insure a smooth transition when the time is right.

Finally, let me attempt, now, to put what we do for clients in understandable order for you. We help create, manage, protect, and transfer wealth for our clients.

Creation

- investment advice
- savings
- loans (business/personal)
- 401(k) management

Management

- investment management
- family office (bill paying/tax returns)
- cash management (personal/business)
- Member Banking (highly personalized routine banking service)
- business banking

Protection

- tax advice/preparation
- insurance (property/casualty and life)
- annuities
- custody services

Transfer

- planning
- estate administration
- trust administration
- foundation management

There's much in the financial section to show the year's results, so please read on to know more about our financial performance.

I welcome your inquiry, am happy to respond to any question you have, and will do my very best to continue to keep Bryn Mawr Bank Corporation worthy of your support.

Sincerely,

Robert L. Stevens

Robert L. Stevens
Chairman
February 25, 2000

The Year in Review

As we begin the new millennium, The Bryn Mawr Trust Company is a very different institution from the neighborhood bank that was established over a century ago. Now, the principal subsidiary of Bryn Mawr Bank Corporation, it has evolved from a traditional bank into a diversified financial service provider. While continuing to maintain the high quality of our traditional competencies, we recognize that to compete successfully, we must respond fully to the more sophisticated and complex financial needs of our constituency.

From left:
Radclyffe F. Thompson
Joseph H. Bachtiger
Randy G. Thomas
Lisa M. Brinton
Joseph W.Roskos

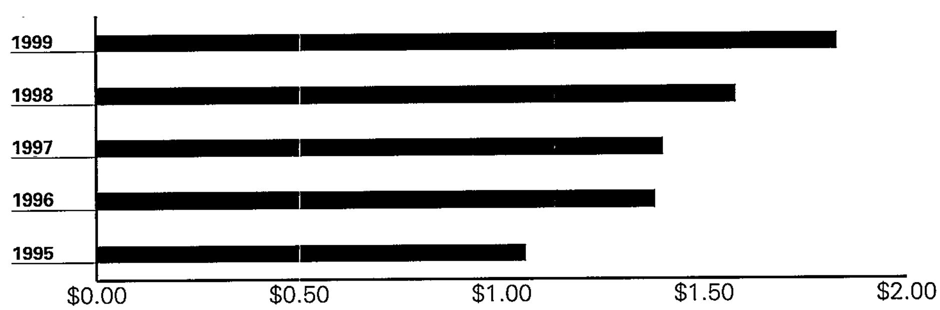
Beginning in 1996, the Corporation began to expand upon its traditional banking and trust business by offering diverse financial services including: individual investment management, investment advisory services, brokerage, tax counseling, insurance, financial planning, and expanded family office, or personal accounting services.

A number of factors accelerated the shift in direction from remaining a community bank to becoming a full financial service provider. The major motivating factor was, however, the inherently slow growth of traditional banking business, which demanded that we expand revenue streams to include more fee-based products and services.

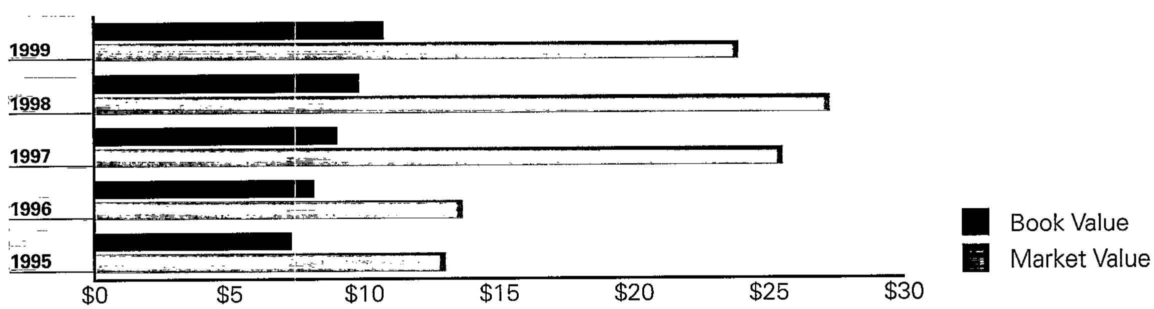
Our Franchise

We are fortunate to be located in the heart of the fifth largest wealth market in the nation. We have an established franchise concentrated in the affluent Philadelphia suburban area known as the "Main Line." We are in a prime market to take advantage of the opportunity that is being created by dramatic demographic changes, such as the aging of the baby boomers, the new wealth created by a strong stock market, and the transfer of wealth from generation to generation.

Earnings Per Share



Common Stock
DOLLARS PER SHARE



We find that "bigger is better" is no longer the popular perception when it comes to the financial service industry. There is a place for a small financial institution that can provide first quality financial products and services in a warm personal way. Our ability to connect clients to related services, and our "client first" approach has been well received. And while we continue to focus on personal attention, we have added convenient services that enable our clients to do business with us on their own terms—in person, by phone, or on-line.

Wealth Management

Through the acquisition of the Joseph W. Roskos Co., we now have the pre-eminent family business office in the Mid-Atlantic region. Our Family Office defines our approach to delivering high quality, personalized financial services to wealthy individuals and their families. We simplify the complexities associated with wealth by serving as an outsourced accounting department for a family – doing for them the work that would typically be performed by the accounting department of a small business. This includes functions like collecting income from various sources, paying bills, keeping payroll records, preparing monthly income and expense summaries, tax planning and return preparation, insurance reviews, will and estate reviews and other functions.

From left:
Norman S. MacQueen, III
Nancy L. Gross
J. Michael Devine
Jere E. Estes
William A. McNeal
Thomas M. Petro
F. Christopher Campbell, III
William A. Keefe
John M. Grib
Andrea Pilch
Eric D. Thorne
Peter T. Maher, Jr.

Family Office services can stand alone, or can be used by clients in concert with our well-established trust and investment services. In 1999, we acquired CDC Capital Management to expand our investment capabilities. Through CDC our clients have access to investment talent from a global network of institutional money managers representing a broad range of investment styles. This complements our large cap growth style of investing client assets that has returned strong, consistent, reliable investment performance. Our Qualified Equity Fund (QEF) outperformed the S&P 500 again in 1999 with a total return of 24.93%. We use the same large cap investment discipline in selecting equities for individual client portfolios as we do for our QEF.

We have expanded our services for individuals to include securities brokerage, tax planning, estate planning, foundation management and insurance. Insurance is a key product offering in helping clients transfer wealth and protect their assets.

Business Advisory

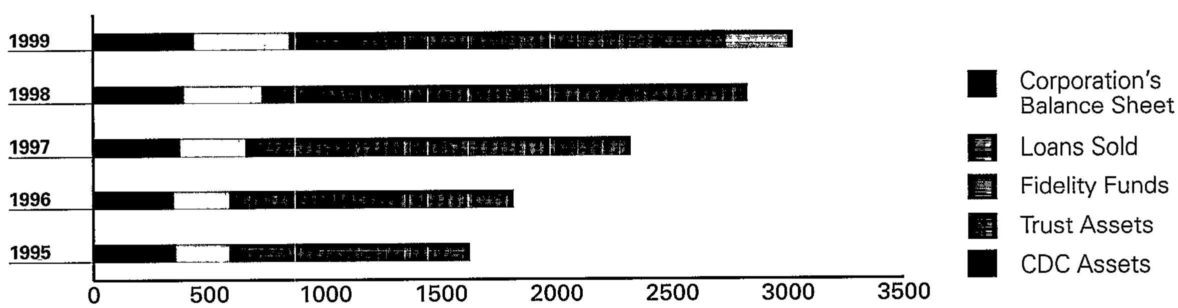
From left:
Martin F. Gallagher, Jr.
Joseph G. Keefer
Sara P. Worrell
David J. Place
Anna Marie Lucianetti
Michele M. Fritz
Carmen L. Fiorentino

Focus on Business

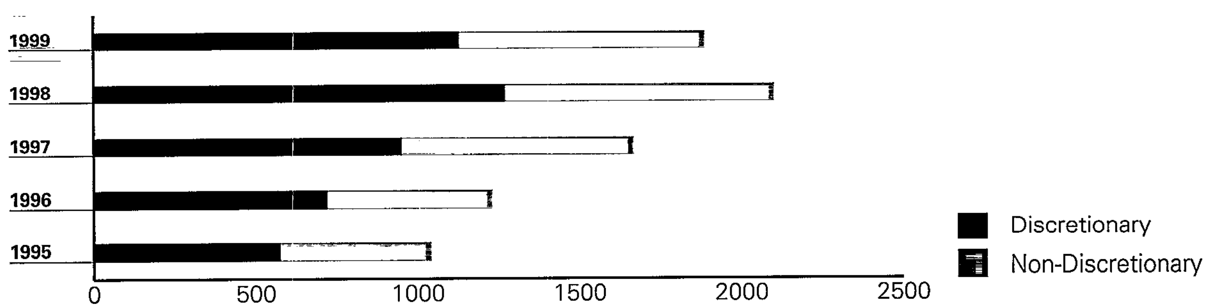
In the past decade, we increased the depth of our commercial banking activities by adding strong cash management capabilities and employee benefits services, such as 401k plan administration and pension plan management. We have built upon this core group of commercial services to include new services: employee group health and welfare plan administration, executive compensation and benefit plan design consulting services, tax planning services and specialty insurance services like key-man insurance, error and omission and director and officer liability insurance. Our approach is to help business clients measure and manage insurable risks.

Despite the industry-wide slow growth rate experienced in the commercial line of business, our business banking continues to grow. Our commercial loan portfolio grew 34% in 1999. As we look ahead, we expect to see more capital markets activity by helping business clients use such well established risk management techniques as interest rate swaps and other hedging products.

Total Assets
IN MILLIONS OF DOLLARS



Trust Assets
IN MILLIONS OF DOLLARS



Consumer Banking

Our banking business continues to grow. During 1999, we experienced strong growth in demand and NOW accounts. We maintain six full-service branches. At the start of the year 2000, we opened our sixth limited service office in affluent retirement communities. This one is at White Horse Village in Newtown Square. The retirement community offices continue to be a good source for banking, trust, and investment management business.

Upgrading Facilities

Our goal is to create facilities dedicated solely to our work and interaction with our clients. We want to simplify the interaction of clients with our experts, providing them easy access to all of our products, services and professional staff. Major renovations are planned for the main building, which currently houses a mix of client contact, and staff support personnel. Our staff support personnel will be relocated to Buildings Two and Six South Bryn Mawr Avenue, just across the street from our main office in Bryn Mawr. The renovations to create a center for our customer-focused activities are expected to take two years and begin in June of 2000.

Community Banking

From left:
Susan J. Healy
Susan B. George
Richard J. Fuchs
Thomas J. Giamoni
Joseph M. Tyson, Jr.
Sandra H. Evans

Financial Reform Bill

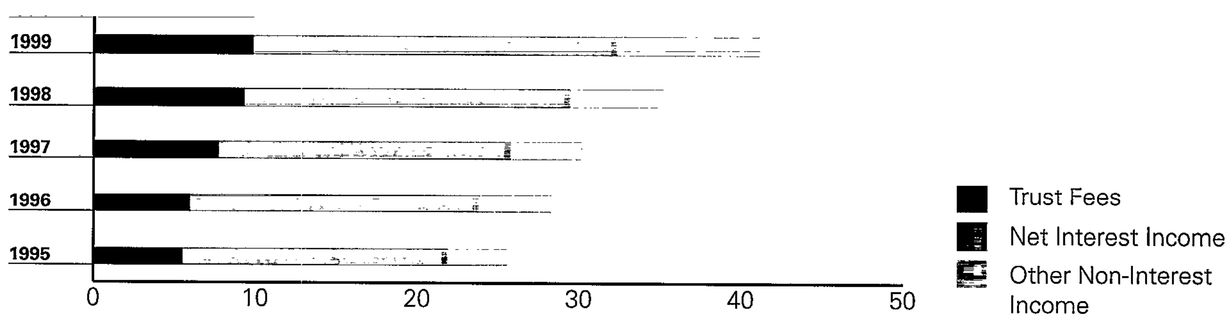
In November the Gramm-Leach-Bliley Act was officially signed. Breaking down the Depression-era legal barriers, banks, investment firms and insurance companies can now merge, creating greater choice and convenience for the consumer.

Customer confidentiality in this new de-regulated era raises privacy issues. Under the new law, financial companies must disclose to their clients, their procedures for protecting client privacy. We have drafted privacy policies for all of our entities, with a special policy drafted to specifically address the insurance business. We remain committed to the highest standards of protecting client confidentiality.

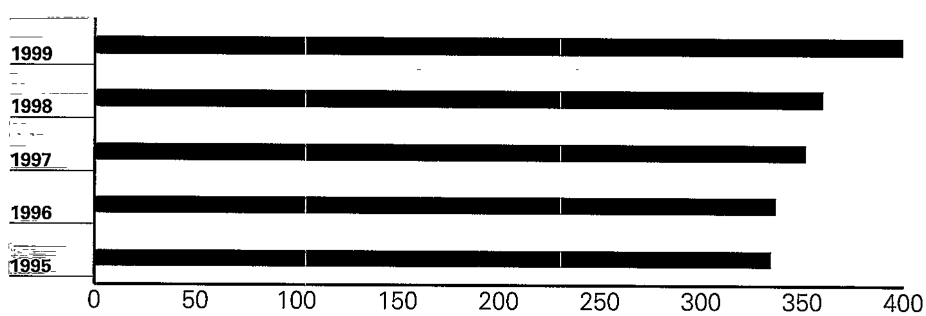
Community Involvement

Ever since its establishment in 1889, Bryn Mawr Trust has played a leading role in support of community activities including: education, health, senior citizen concerns, cultural events, civic duties, business organizations, and the general well being of the individuals and businesses within those areas where it transacts business. The Bank intends to continue its commitment to the community both financially, and by providing leadership to maximize the effectiveness of these efforts.

Total Revenue Streams
IN MILLIONS OF DOLLARS



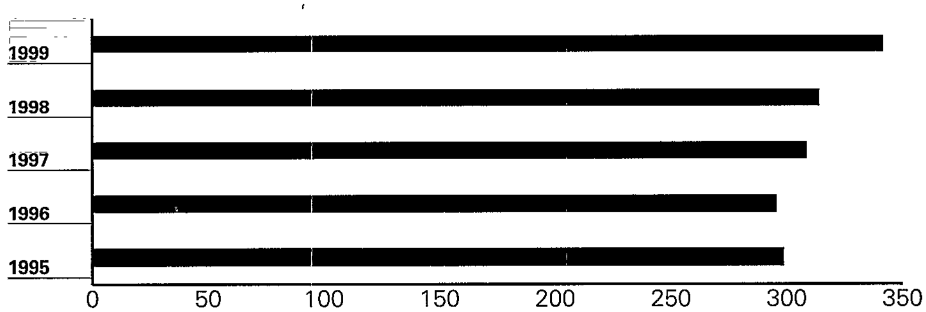
Total Corporation Average Assets
IN MILLIONS OF DOLLARS



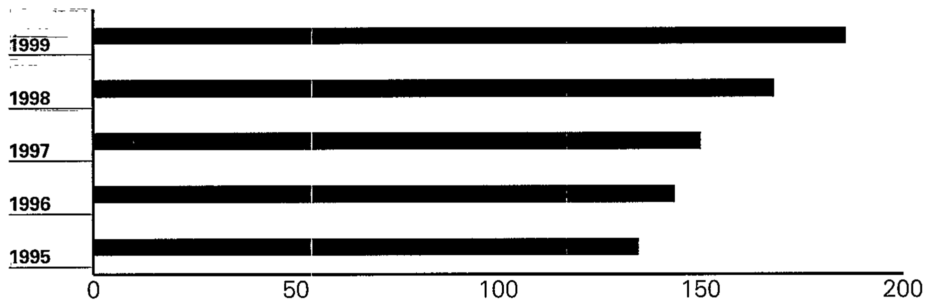
What's Ahead?

In the ever-changing financial landscape, a myriad of financial service providers stand ready to satisfy almost any financial need a client could face. Yet, we firmly believe that there is a significant place for Bryn Mawr Bank Corporation in the crowded financial service marketplace. We believe that personal care, delivered warmly by competent and trustworthy experts will be in demand well into this new century. So, based on that premise, we continue to strive to be the place for personal financial service attention and trusted advice.

Total Average Deposits
IN MILLIONS OF DOLLARS



Transaction Accounts Average Balances
IN MILLIONS OF DOLLARS



The Bryn Mawr Trust Company

801 Lancaster Avenue
Bryn Mawr, Pennsylvania 19010-3396
610-525-1700

Senior Management

Robert L. Stevens*
Chairman, Chief Executive Officer, and President

Samuel C. Wasson, Jr.*
Vice Chairman and Secretary

Joseph H. Bachtiger
Executive Vice President, Trust Administration

Robert J. Ricciardi*
Executive Vice President and Chief Credit Policy Officer

Joseph W. Roskos*
Executive Vice President, Trust

Lisa M. Brinton
Senior Vice President, Estate Planning

June M. Falcone
Senior Vice President, Banking Operations

Lester E. Gallagher, III
Senior Vice President, Trust

Alison E. Gers
Senior Vice President, Marketing

Joseph G. Keefer
Senior Vice President and Chief Lending Officer

Paul M. Kistler, Jr.
Senior Vice President, Facilities, Human Resources, Security and Compliance

Donald B. Krieble
Senior Vice President, Consumer Credit Services

William F. Mannion, Jr.
Senior Vice President, Corporate Sales

William R. Mixon
Senior Vice President, Information Systems, and Chief Technology Officer

Thomas M. Petro
Senior Vice President, Investment Management

Joseph W. Rebl*
Senior Vice President, Treasurer, and Chief Financial Officer

Walter Smedley, III
Senior Vice President, Corporate Sales

Leo M. Stenson
Senior Vice President and Auditor

Stephen J. Collar
Group Vice President, Consumer Credit Services

Carmen L. Fiorentino
Group Vice President, Commercial & Real Estate Lending Services

Richard J. Fuchs
Group Vice President, Community Banking

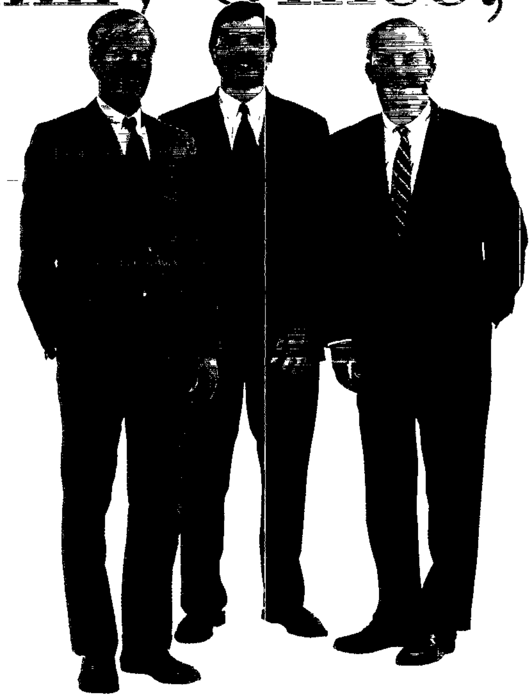
Geoffrey L. Halberstadt
Group Vice President, Commercial & Real Estate Lending Services, and Risk Management Officer

Joseph S. Saraceno
Group Vice President, Loan Accounting

Mame O. Skelly
Group Vice President and Comptroller

*Also officer of the Corporation

Tax, Family Office, Insurance



From left:
William H. Giese
Robert M. Fedoris
John G. Daniel

Other Financial Services:

BMT Mortgage Company
A division of The Bryn Mawr Trust Company

Bryn Mawr, Pennsylvania

Patrick J. Keenan, Managing Director

Bryn Mawr Brokerage Company, Inc.
A subsidiary of Bryn Mawr Bank Corporation

Bryn Mawr, Pennsylvania

Thomas M. Petro, President and Chief Executive Officer

CDC Capital Management, Inc.
A subsidiary of Bryn Mawr Bank Corporation

2 South Bryn Mawr Avenue

Bryn Mawr, Pennsylvania 19010

J. Michael Devine, President and Chief Executive Officer

Insurance Counsellors of Bryn Mawr, Inc.
A subsidiary of The Bryn Mawr Trust Company

Bryn Mawr, Pennsylvania

John G. Daniel, President and Chief Executive Officer

Investment Counsellors of Bryn Mawr
A department of the Investment Management Division

Four Tower Bridge

200 Barr Harbor Drive, Suite 225

West Conshohocken, Pennsylvania 19428

Jere E. Estes, Senior Vice President

Joseph W. Roskos & Co.
A subsidiary of Bryn Mawr Bank Corporation

2011 Renaissance Boulevard, Suite 200

King of Prussia, Pennsylvania 19406

Joseph W. Roskos, Chairman
Robert M. Fedoris, President and Chief Executive Officer

Tax Counsellors of Bryn Mawr, Inc.
A subsidiary of Bryn Mawr Bank Corporation

Bryn Mawr, Pennsylvania

William H. Giese, President and Chief Executive Officer

Directors:

Richard B. Cuff
Chairman, Cuffco, Inc.

Warren W. Deakins
Self-employed, Insurance Sales

John D. Firestone
Partner, Secor Group

William Harral, III
Chairman, C&D Technologies, Inc.

Wendell F. Holland, Esq.
Counsel to Obermayer, Rebmann, Maxwell & Hippel, L.L.P.

Phyllis M. Shea
Attorney-at-Law, Shea and Shea, L.L.P.

Robert L. Stevens
Chairman, Chief Executive Officer, and President of Bryn Mawr Bank Corporation and The Bryn Mawr Trust Company

B. Loyall Taylor, Jr.
President, Taylor Gifts, Inc.

Nancy J. Vickers
President, Bryn Mawr College

Samuel C. Wasson, Jr.
Secretary of Bryn Mawr Bank Corporation and Vice Chairman and Secretary of The Bryn Mawr Trust Company

Thomas A. Williams
Vice President, Secretary/Treasurer Houghton International, Inc.

Annual Meeting:

The Annual Meeting of Shareholders of Bryn Mawr Bank Corporation will be held in Wyndham Alumnae House, Bryn Mawr College, Bryn Mawr, Pennsylvania, on Tuesday, April 18, 2000, at 2:00 p.m.

Market Makers:

F. J. Morrissey & Co., Inc.
Philadelphia, Pennsylvania

McConnell Budd & Downes
Morristown, New Jersey

Ryan Beck and Company, Inc.
West Orange, New Jersey

Janney Montgomery L.L.C.
Philadelphia, Pennsylvania

Spear, Leeds & Kellogg
New York, New York

Knight Securities, L.P.
New York, New York

Herzog, Heine, Geduld, Inc.
New York, New York

Corporate Headquarters

801 Lancaster Avenue
Bryn Mawr, Pennsylvania
19010-3396
610-526-2302

Auditors

PricewaterhouseCoopers L.L.P.
2400 Eleven Penn Center

Philadelphia, Pennsylvania 19103-2962

Legal Counsel

Monteverde, McAlee, FitzPatrick, Tanker & Hurd, P.C.
One Penn Center at Suburban Station

1617 John F. Kennedy Boulevard

Suite 1500

Philadelphia, Pennsylvania 19103-1815

Stock Listing

Bryn Mawr Bank Corporation common stock is traded over-the-counter and is listed on the NASDAQ National Market System under the symbol BMTC.

Registrar & Transfer Agent

ChaseMellon Shareholder Services, L.L.C.
P.O. Box 3315,

South Hackensack, NJ 07606-1915

www.chasemellon.com

Form 10-K

A copy of the Corporation's Form 10-K, including financial statement schedules as filed with the Securities and Exchange Commission, is available without charge to shareholders upon written request to Samuel C. Wasson, Jr., Secretary, Bryn Mawr Bank Corporation, 801 Lancaster Avenue, Bryn Mawr, Pennsylvania 19010-3396, or via e-mail to swasson@bmtc.com.

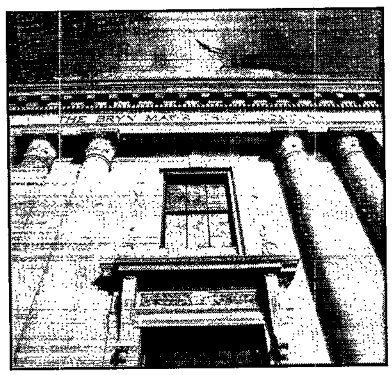
Equal Employment Opportunity

The Corporation continues its commitment to equal opportunity employment and does not discriminate against minorities or women with respect to recruitment, hiring, training, or promotion. It is the policy of the Corporation to comply voluntarily with the practices of Affirmative Action.

Bryn Mawr Bank Corporation

1999 Annual Report

Financial Section



Contents

Selected Financial Data

For the years ended December 31,	1999	1998*	1997*	1996*	1995*
	(in thousands, except for share and per share data)				
Interest income	**$ 28,317**	$ 26,082	$ 24,960	$ 24,337	$ 23,617
Interest expense	**5,857**	5,976	6,929	6,490	7,246
Net interest income	**22,460**	20,106	18,031	17,847	16,371
Loan loss provision	**250**	150	200	350	500
Net interest income after loan loss provision	**22,210**	19,956	17,831	17,497	15,871
Other income	**18,610**	15,076	12,086	10,423	9,197
Other expenses	**28,980**	24,695	20,837	18,978	18,325
Income before income taxes	**11,840**	10,337	9,080	8,942	6,743
Applicable income taxes	**3,879**	3,480	2,950	2,900	2,100
Net income	**$ 7,961**	$ 6,857	$ 6,130	$ 6,042	$ 4,643
Per share data:					
Earnings per common share:					
Basic	**$ 1.83**	$ 1.58	$ 1.40	$ 1.38	$ 1.06
Diluted	**$ 1.75**	$ 1.51	$ 1.33	$ 1.33	$ 1.04
Dividends declared	**$ 0.60**	$ 0.465	$ 0.36	$ 0.46	$ 0.25
Weighted-average shares outstanding	**4,349,403**	4,327,297	4,392,162	4,385,094	4,377,056
Dilutive potential common shares	**193,915**	225,708	203,660	151,698	90,740
Adjusted weighted-average shares	**4,543,318**	4,553,005	4,595,822	4,536,792	4,467,796

At December 31,	1999	1998	1997	1996	1995
	(in thousands)				
Total assets	**$ 436,820**	$ 391,840	$ 374,210	$ 345,747	$ 354,956
Earning assets	**395,952**	357,683	327,942	305,911	314,089
Deposits	**371,068**	342,357	328,806	303,183	317,601
Shareholders' equity	**46,719**	42,221	39,349	35,808	31,903

For the years ended December 31,	1999	1998	1997	1996	1995
Selected financial ratios:					
Net interest margin	**6.12%**	5.99%	5.59%	5.67%	5.21%
Net income to:					
Average total assets	**1.99%**	1.91%	1.74%	1.79%	1.39%
Average shareholders' equity	**17.97%**	17.06%	16.45%	18.16%	15.79%
Average shareholders' equity to average total assets	**11.10%**	11.17%	10.60%	9.88%	8.79%
Dividends declared per share to net income per basic common share	**32.79%**	29.43%	25.71%	33.33%	23.58%

**Reclassified for comparative purposes.*

Management's Discussion and Analysis

The following is a discussion of the consolidated results of operations of Bryn Mawr Bank Corporation and its subsidiaries (the "Corporation") for each of the three years in the period ended December 31, 1999, as well as the financial condition of the Corporation as of December 31, 1999 and 1998. The Bryn Mawr Trust Company (the "Bank"), Tax Counsellors of Bryn Mawr, Inc. ("TCBM"), Bryn Mawr Brokerage Company, Inc. ("BM Brokerage"), CDC Capital Management, Inc. ("CDC") and Joseph W. Roskos & Co. ("JWR&Co") are wholly-owned subsidiaries of the Corporation. Insurance Counsellors of Bryn Mawr, Inc. ("ICBM") is a wholly-owned subsidiary of the Bank. This discussion should be read in conjunction with the Corporation's consolidated financial statements beginning on page 18.

From time to time, the Corporation has and will continue to make statements that may include forward-looking information. Any forward-looking statements contained herein are subject to certain risks and uncertainties, many of which are out of management's direct control, that could cause actual results to differ materially from those projected in the forward-looking statements. Examples include, but are not limited to, the effect of prevailing economic conditions and the current interest rate environment, as well as the overall direction of government policies and the actions and policy directives of the Federal Reserve Board, competitive factors in the Corporation's market area and risks associated with the management of the credit function and fiduciary activities.

SIGNIFICANT ITEMS FOR 1999

Growth of Non-interest Revenue Streams Through New Corporation Acquisitions

A strategic goal of the Corporation continues to be providing its customer base with financial services and products that are designed to meet the ever-evolving needs of customers. The addition of new financial services and products creates new sources of non-interest revenue. In January 1999, the Corporation acquired CDC in order to offer investment advisory services to its customer base, thereby providing a means of increasing its non-interest revenue streams. Also established in January 1999 was BM Brokerage, to enable the Corporation's customer base to have access to brokerage services through the Corporation. In April 1999, the Bank acquired JWR&Co. to provide family business office services and products to its customers. This transaction was effective as of January 1, 1999. Both acquisitions reported profits for the year, while BM Brokerage reported a nominal loss. The three companies were primarily responsible for a 23% increase in total other income for 1999, compared to the same period in 1998.

The Corporation's other non-interest related lines of business, ICBM and TCBM, also produced profits for the year, while increasing their non-interest revenue streams over 1998 levels.

The Bank's business lines which provide non-interest revenue streams, the Investment Management and Trust Division, and BMT Mortgage Company, divisions of the Bank, were profitable in 1999. The segment profit of the Investment Management and Trust Division grew by 13%, from $4,154,000 for 1998 to $4,713,000 for 1999. Due primarily to an increase in interest rates on residential mortgage loans in 1999, making financing less attractive for borrowers, BMT Mortgage Company, dedicated to the origination and sale of residential mortgage loans to the secondary mortgage market, showed a 39% decline in its segment profit from $1,329,000 in 1998 to $805,000 in 1999. The effect of changing interest rates on BMT Mortgage Company's profitability runs counter cyclical to the Bank's Banking segment. As interest rates moved upward during 1999 and BMT Mortgage Company's loan origination and sale activity declined, the Bank's net interest margin and related net interest income generally increased. While net interest income increased by $2,354,000 or 12%, $393,000 or 17% of the increase was attributable to rate changes in 1999.

Exclusive of gains on the sale of other real estate owned ("OREO"), reported in both periods, the growth in non-interest revenues resulted in an increase in the percentage of non-interest revenues earned in 1999, compared to total revenues, to 40% from 36% for 1998.

Dividend Increase

Based on a continued growth in record earnings, the Corporation increased its quarterly dividend payment for 1999 by 25%, from $0.12 per share in 1998 to $0.15 per share in 1999. The Corporation's dividend payout ratio was 32.79% of basic earnings per share for 1999, compared to 29.43% for 1998.

Stock Repurchase Program

During 1997, the Corporation established a stock repurchase program, authorizing management to repurchase up to 5% of the then outstanding common shares of the Corporation. This program was renewed again in 1999, authorizing management to repurchase up to 5% of the outstanding shares as of March 1999, while not spending more than $6,500,000 (the "Stock Repurchase Program"). During 1999, the Corporation repurchased 96,500 shares of the Corporation's common stock, at a cost of $2,530,000.

RESULTS OF OPERATIONS

Overview

The Corporation reported a 16% increase in net income of $7,961,000 for the year ended December 31, 1999, another record year for Corporation earnings. Net income for 1998 amounted to $6,857,000.

Earnings per common share amounted to $1.83 in 1999, a 16% increase over $1.58 for 1998. Earnings per common share-assuming dilution were $1.75 and $1.51 for 1999 and 1998, respectively. The dilutive potential common shares added to the weighted-average shares outstanding were 193,915 and 225,708 for 1999 and 1998, respectively.

These record earnings results for 1999 were due to a number of factors. Net interest income, spurred on by a 13% increase in average outstanding loans, increased by $2,354,000 or 12%. Non-interest revenue streams grew by $3,534,000 or 23%. This growth is due primarily to the addition of new revenue streams from CDC and JWR&Co., acquired in early 1999 ("the New Acquisitions"). Fees from Investment Management and Trust revenues increased by $512,000 or 6% over similar revenues for 1998. During 1999, five Trust officers resigned from the Bank (the "Resignations"), taking some trust accounts with them. The Resignations and related loss of these accounts caused a $298,000 decrease in related trust fees in 1999. However, after accounting for the related decrease in salary and fringe benefit expenses, combined with the timing of the transfer of the trust accounts attributable to the Resignations, pre-tax income increased by $116,000.

Exclusive of OREO related revenues, total other income increased by $3,713,000 or 25% over similar revenues for 1998. Other expenses increased $4,285,000 or 17% in 1999, compared to 1998. This increase in other expense is partially due to the New Acquisitions.

Return on average assets for the year increased to 1.99% from 1.91% in 1998, while return on average equity for 1999 was 17.97% compared to 17.06% in 1998.

EARNINGS PERFORMANCE

Lines of Business

The Corporation continues to have four significant business lines from which it derives its earnings. Its core business line is the Banking line of business. Additional earnings streams are obtained from its Investment Management and Trust line of business and its Mortgage Banking line of business—the origination, servicing and sale of mortgage loans to the secondary mortgage market. The fourth segment, included in "All Other" in the following segmentation analysis, has net revenues from financial services and products, offered through its subsidiaries, as well as the Bank's subsidiary, ICBM.

Following is a segmentation analysis of the results of operations for those lines of business for 1999 and 1998:

TABLE 1 - Line of Business Analysis

	1999				
(dollars in thousands)	Banking	Trust	Mortgage Banking	All Other	Consolidated
Net interest income	$22,310	$ —	$ 145	$ 5	$22,460
Less loan loss provision	250	—	—	—	250
Net interest income after loan loss provision	22,060	—	145	5	22,210
Other income:					
Fees for investment management and trust services	—	9,784	—	—	9,784
Service charges on deposit accounts	1,156	—	—	—	1,156
Other fees and service charges	571	—	762	—	1,333
Net gain on sale of loans	44	—	984	—	1,028
Gain on sale of other real estate owned	45	—	—	—	45
Other operating income	1,115	—	—	4,568	5,683
Total other income	2,931	9,784	1,746	4,568	19,029
Other expenses:					
Salaries-regular	7,251	2,852	469	1,874	12,446
Salaries-other	1,754	230	78	184	2,246
Fringe benefits	1,474	565	80	215	2,334
Occupancy	3,090	476	149	456	4,171
Other operating expenses	5,218	948	310	1,726	8,202
Total other expenses	18,787	5,071	1,086	4,455	29,399
Segment profit	$ 6,204	$4,713	$ 805	$ 118	$11,840
% of segment profit	52%	40%	7%	1%	100%

	1998*				
(dollars in thousands)	Banking	Trust	Mortgage Banking	All Other	Consolidated
Net interest income	$20,052	$ —	$ 51	$ 3	$20,106
Less loan loss provision	150	—	—	—	150
Net interest income after loan loss provision	19,902	—	51	3	19,956
Other income:					
Fees for investment management and trust services	—	9,272	—	—	9,272
Service charges on deposit accounts	1,169	—	—	—	1,169
Other fees and service charges	571	—	701	—	1,272
Net gain on sale of loans	35	—	1,647	—	1,682
Gain on sale of other real estate owned	224	—	—	—	224
Other operating income	631	—	—	1,079	1,710
Total other income	2,630	9,272	2,348	1,079	15,329
Other expenses:					
Salaries-regular	6,489	2,863	417	520	10,289
Salaries-other	1,692	386	117	180	2,375
Fringe benefits	1,232	549	74	53	1,908
Occupancy	2,793	422	62	180	3,457
Other operating expenses	5,003	898	400	618	6,919
Total other expenses	17,209	5,118	1,070	1,551	24,948
Segment profit (loss)	$ 5,323	$4,154	$1,329	$ (469)	$10,337
% of segment profit (loss)	51%	40%	13%	-4%	100%

Bryn Mawr Bank Corporation, Tax Counsellors of Bryn Mawr, Inc., Insurance Counsellors of Bryn Mawr, Inc., Bryn Mawr Brokerage Company, Inc., CDC Capital Management, Inc. and Joseph W. Roskos & Company have all been aggregated in All Other.

** Reclassified for comparative purposes.*

The table reflects operating profits (losses) of each line of business before income taxes.

There was an increase in Investment Management and Trust operating profits, up 13%, while the Mortgage

Banking segment's operating profits decreased 39% in 1999, compared to 1998. The Banking segment's operating profits grew by 17% from 1998 levels. The Banking segment's percentage of operating profits stood at 52% for 1999, compared to 51% for 1998. Investment Management and Trust's percentage of operating profit was 40% for both years. The Mortgage Banking segment's share of operating profits decreased from 13% in 1998 to 7% in 1999, while the "All Other" segment, including the New Acquisitions, increased from (4%) in 1998 to 1% in 1999.

Banking Line of Business

The Bank's average outstanding earning assets of $359,261,000 increased 9% from $328,605,000 for 1998. Average outstanding loans grew by 13% in 1999. The largest dollar increase in average outstanding loans occurred in commercial and industrial loans, up $17,601,000 or 21% over 1998 average balances. Commercial mortgage loans grew by $9,995,000 or 23% over 1998 average balances, and average outstanding construction loans rose by $1,833,000 or 14% over similar average outstanding balances for 1998. Average outstanding residential mortgage loans grew by $6,695,000 or 51% in 1999, compared to similar average outstanding balances in 1998. BMT Mortgage Company chose to hold some of the originated residential mortgage loans in its loan portfolio. Offsetting these increases, were decreases in the average outstanding balances of the Bank's consumer loan portfolio, down $4,491,000 or 4% from 1998's average outstanding balances. Lower consumer loan demand, caused by increased competition from automobile manufacturers for new automobile loans, was primarily responsible for the reduction in the percentage of loan growth in the average outstanding consumer loan portfolio in 1999. The average outstanding balances of federal funds sold decreased by 22% in 1999 compared to 1998 levels, partially funding the growth in the loan portfolio. Average outstanding investments decreased by 6% for 1999, compared to 1998.

Average outstanding total deposits increased 9% in 1999, compared to 1998. The largest dollar increase occurred in the Bank's non-interest bearing demand deposits and low costing NOW account balances, up $9,325,000 or 11% and $8,452,000 or 10%, respectively. Average money market account balances increased by $5,546,000 or 13%. Average outstanding balances of higher costing certificates of deposit ("CDs") grew by $3,497,000 or 6%. Average outstanding savings deposits increased 2% or $722,000. The change in the mix of average outstanding deposits, increasing non-interest bearing and lower costing NOW and money market account balances, at a greater percentage of increase than higher costing CDs, led to a $119,000 or 2% decrease in interest expense and an increase in the net interest margin to 6.12% in 1999 from 5.99% for 1998. An expanded discussion of net interest income follows under the section entitled "Net Interest Income".

Exclusive of OREO gains in each period, other income from the banking segment increased by 20% in 1999 compared to 1998. This was due primarily to a 77% increase in other operating income. During the first quarter of 1999, the Bank leased two buildings in Bryn Mawr (the "Buildings"). The Buildings are located directly across Lancaster Avenue from the Bank's main office and are to be used for future expansion. Existing tenants generated $250,000 in rental income, included in other operating income, accounting for more than one-half of the increase in other operating income, over 1998 levels.

Total other expenses of the Banking line of business increased 9% in 1999 compared to 1998 levels. Overall, the operating profits of the Banking line of business increased 17% in 1999 compared to 1998.

Investment Management and Trust Line of Business

The Bank's Investment Management and Trust Division reported a 13% increase in operating profit for 1999 compared to 1998 levels. As previously stated, the Resignations were directly responsible for a $298,000 decrease in fees from Investment Management and Trust services. Total Investment Management and Trust fee income rose 6% in 1999. The market value of assets under administration decreased from $2,101,215,000 at December 31, 1998, to $1,887,295,000 as of December 31, 1999. Trust assets under management, included in above, decreased from $1,270,323,000 at December 31, 1998 to $1,127,715,000 as of December 31, 1999. The movement of accounts, caused by the Resignations is primarily responsible for this decrease. CDC had assets under advisement of $295,466,000 as of December 31, 1999, bringing total investment assets under administration or advisement at December 31, 1999 to $2,182,761,000.

Reflecting the effect of the Resignations, other expenses of the Investment Management and Trust line of business decreased 1% in 1999 over 1998 levels. Salary expense was down compared to 1998 levels.

Mortgage Banking Line of Business

The operating profit of the Bank's Mortgage Banking line of business decreased 39% in 1999 compared to 1998. During 1999, mortgage interest rates rose enough to make refinancing less attractive to borrowers. In 1999, the Mortgage Banking line of business had a 45% decrease in the volume of loans sold in the secondary mortgage market, partially offset by an 11 basis point increase in the yield on sales, compared to 1998 levels. Following is a table showing the volume of residential mortgage loans originated and sold in the secondary mortgage market, the total net gains realized, and the yield on these loan sales:

TABLE 2 - Summary of Loan Sale Activity

(dollars in thousands)	1999	1998*
Volume of loans sold	**$73,921**	$134,676
Loan fees and net gains on sales	**984**	1,647
Yield on sales	**1.33%**	1.22%

* Restated for comparative purposes.

As of December 31, 1999, the Bank serviced $283,124,000 in residential mortgage loans for others, compared to $271,836,000 in loans serviced for others at year-end 1998.

Bryn Mawr Bank Corporation

The Corporation is a one-bank holding company, generating intercompany revenues from the rental of Corporation owned properties to the Bank. Expenses are primarily of an administrative nature.

Tax Counsellors of Bryn Mawr, Inc.

In July 1997, the Corporation established a new wholly-owned subsidiary, TCBM, in order to add professional tax planning to its array of financial products and services offered to its customers. TCBM employs CPAs and an attorney (the "Tax Professionals"), having significant tax planning, preparation and financial planning capabilities. As a part of the formation of TCBM, a profit sharing agreement was developed that allows the Tax Professionals to retain the net revenues generated by existing clients brought to TCBM. For the second full year of operation, TCBM exceeded the revenue goals established in the profit sharing agreement, adding $5,000 to the Corporation's net income for 1999, compared to $10,000 for 1998.

Insurance Counsellors of Bryn Mawr, Inc.

In January 1998, the Bank established a new wholly-owned subsidiary, ICBM (a full-service insurance agency), to enable the Bank to offer insurance related products and services to its customer base. ICBM offers a full line of life, property and casualty and commercial lines to its customer base. For 1999, ICBM reported net income of $65,000 compared to a loss of $26,000 for 1998.

Bryn Mawr Brokerage Company, Inc.

The Corporation established BM Brokerage in January 1999, in order to make brokerage services available to its client base through an affiliation with an independent broker-dealer. During its first year of operation, BM Brokerage reported a net loss of $6,000.

CDC Capital Management, Inc.

In January 1999, the Corporation acquired CDC for $281,000 in Corporation stock, a portion of which was issued at the time of the acquisition. The balance of the shares will be issued at the first and second anniversary of the acquisition. Goodwill, in the amount of $177,000, was recorded on the Corporation's books, to be amortized over a 10-year life. CDC was acquired to enable the Corporation to enhance its array of financial services and products by offering investment advisory services to its clients. CDC reported a net profit of $6,000 for 1999.

Joseph W. Roskos & Co.

On April 1, 1999, the Corporation acquired JWR&Co., effective January 1, 1999, for $4,195,000, through a combination of Corporation stock and cash. Goodwill in the amount of $3,300,000 was recorded on the Corporation's books, to be amortized over a 20-year life. JWR&Co. was acquired to expand the products and services being offered by the Corporation. JWR&Co. provides family business office services to high-net-worth individuals, including accounting and tax preparation services, consulting and fiduciary support services. JWR&Co. reported a net profit of $344,000 in 1999, before the amortization of $164,000 of goodwill.

Net Interest Income

A 9% or $2,235,000 increase in interest income, combined with a 2% or $119,000 decrease in interest expense, from year to year, resulted in an overall increase in net interest income of 12% or $2,354,000. Average earning assets grew 9% in 1999, compared to 1998 levels. Higher yielding average outstanding loan balances grew by 13%. The average outstanding balances of investments and federal funds sold decreased by 6% and 22%, respectively. Total average deposits increased 9%. The largest increase occurred in the Bank's lower costing average outstanding money market checking accounts, up by 13%, followed by non-interest bearing demand deposits, up by 11%, while NOW account balances grew by 10%. Average outstanding savings deposits increased by 2%. Average outstanding CDs increased by 6% over 1998 levels. This growth in average low cost and non-interest bearing deposits, compared to a lower growth rate of higher costing CDs, is primarily responsible for a 22 basis point decrease in the average cost of funds for 1999, compared to 1998. This decrease in the cost of funds was directly responsible for the Bank's net interest margin, defined as net interest income, exclusive of loan fees, as a percentage of average earning assets, increasing from 5.99% for 1998 to 6.12% for 1999.

The following table shows an analysis of the composition of net interest income for each of the last three years. Interest income on loans includes fees on loans of $465,000, $413,000 and $405,000 in 1999, 1998 and 1997 respectively. The average loan balances include nonaccrual loans. All average balances are calculated on a daily basis. Yields on investment securities are not calculated on a tax-equivalent basis.

TABLE 3 - Analyses Of Interest Rates and Interest Differential

	1999			1998**			1997**		
(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:									
Cash and due from banks	$ 22,060	$ —	—%	$ 19,065	$ —	—%	$ 23,329	$ —	—%
Interest-bearing deposits with other banks*	2,173	103	4.7	1,345	68	5.1	176	8	4.5
Federal funds sold*	12,272	609	5.0	15,665	824	5.3	16,964	935	5.5
Investment securities available for sale:									
Taxable*	30,440	1,698	5.6	31,760	1,880	5.9	32,693	1,988	6.1
Tax-exempt*	4,162	183	4.4	4,953	224	4.5	5,868	283	4.8
Total investment securities	34,602	1,881	5.4	36,713	2,104	5.7	38,561	2,271	5.9
Loans*	310,214	25,724	8.3	274,882	23,085	8.4	259,847	21,746	8.4
Less allowance for loan losses	(4,257)	—	—	(4,088)	—	—	(4,247)	—	—
Net loans	305,957	25,724	8.4	270,794	23,085	8.5	255,600	21,746	8.5
Other assets	21,997	—	—	16,278	—	—	16,807	—	—
Total assets	$399,061	$28,317	—	$359,860	$26,081	—	$351,437	$24,960	—
Liabilities:									
Demand deposits, noninterest-bearing	$ 92,098	$ —	—%	$ 82,773	$ —	—%	$ 76,076	$ —	—%
Savings deposits	184,505	2,533	1.4	169,785	2,923	1.7	158,752	3,058	1.9
Time deposits	65,000	3,008	4.6	61,503	3,052	5.0	73,792	3,871	5.2
Short term borrowings	4,658	266	5.7	0	0	0.0	0	0	0.0
Federal funds purchased	954	50	5.2	18	1	5.6	5	0	6.0
Other liabilities	7,554	—	—	5,595	—	—	5,550	—	—
Total liabilities	354,769	5,857	—	319,674	5,976	—	314,175	6,929	—
Shareholders' equity	44,292	—	—	40,186	—	—	37,262	—	—
Total liabilities and shareholders' equity	$399,061	$ 5,857	—	$359,860	$ 5,976	—	$351,437	$ 6,929	—
Total earning assets*	$359,261	—	—	$328,605	—	—	$315,548	—	—
Interest income to earning assets	—	—	7.9	—	—	7.9	—	—	7.9
Interest expense to earning assets	—	—	1.6	—	—	1.8	—	—	2.2
Net yield on interest-earning assets	—	—	6.3	—	—	6.1	—	—	5.7
Average effective rate paid on interest-bearing liabilities	—	—	2.3	—	—	2.6	—	—	3.0
Net interest margin	—	—	6.12	—	—	5.99	—	—	5.59

* *Indicates earning assets.*
** *Reclassified for comparative purposes.*

The following table shows the effect of changes in volumes and rates on interest income and interest expense. Variances which were not specifically attributable to volume or rate were allocated proportionately between volume and rate. Interest income on loans included increases (decreases) in fees on loans of $52,000 in 1999, $8,000 in 1998, and ($47,000) in 1997.

TABLE 4 - Rate/Volume Analyses

(in thousands)	1999 vs. 1998			1998 vs. 1997		
Increase/(decrease)	Volume	Rate	Total	Volume	Rate	Total
Interest Income:						
Interest-bearing deposits with other banks	$ 41	($ 6)	$ 35	$ 59	$ 1	$ 60
Federal funds sold	(170)	(45)	(215)	(75)	(36)	(111)
Investment securities available for sale:						
Taxable	(82)	(100)	(182)	(50)	(58)	(108)
Tax-exempt	(36)	(5)	(41)	(42)	(17)	(59)
Loans	2,918	(279)*	2,639	1,339	0*	1,339
Total interest income	2,671	(435)	2,236	1,231	(110)	1,121
Interest expense:						
Savings deposits	208	(596)	(390)	198	(333)	(135)
Time deposits	186	(230)	(44)	(665)	(154)	(819)
Short term borrowings	266	0	266	0	0	0
Fed funds purchased	49	0	49	1	0	1
Total interest expense	709	(826)	(119)	(466)	(487)	(953)
Interest differential	$1,962	$393	$2,355	$1,697	$377	$2,074

* *Included in the loan rate variance was an increase (decrease) in interest income related to non-performing loans of $327,000 and ($230,000) in 1999 and 1998, respectively. The variances due to rate include the effect of nonaccrual loans because no interest is earned on such loans.*

The 9% growth in interest income for 1999 was attributable to a 9% increase in average earning assets from $328,605,000 for 1998 to $359,261,000 for 1999. The yield on average outstanding earning assets remained level for 1999, compared to 1998, at 7.9% for both periods. The average yield on loans decreased 10 basis points, from 8.4% in 1998 to 8.3% in 1999. The average yield on federal funds sold decreased 30 basis points, to 5.0% for 1999, compared to 5.3% for 1998. The yield on the investment portfolio decreased by 30 basis points from 5.7% in 1998 to 5.4% in 1999. This was due to the maturity of older, higher yielding investments in the portfolio.

The growth in interest income attributable to volume was the result of a 13% increase in average outstanding loans. Partially offsetting this increase in the volume variance was a reduction in interest income related to the rate variance, due primarily to the 10 basis point decrease on the average yield on the loan portfolio.

As of December 31, 1999, outstanding loans increased 21% over December 31, 1998 loan balances. The most significant loan growth came in commercial and industrial loans, which grew by 34% year end to year end. Permanent mortgage loans, including both commercial mortgage loans and residential mortgage loans increased by 22%. Commercial mortgage loans grew by 8%, while residential mortgage loan balances increased by 66%. Construction loan outstanding balances increased 9%. A 3% increase in outstanding consumer loans is due primarily to a 3% increase in short-term indirect automobile loan balances at year-end 1999 compared to year-end 1998.

Average deposits increased $27,542,000 or 9% during 1999. This was due to a continued reaction to banking consolidations in the Bank's market area and the acquisition of new commercial and trust accounts. The Bank's average money market rate accounts grew by 13%, while NOW accounts grew by 10% and non-interest bearing demand deposits and average outstanding savings deposits increased by 11% and 2%, respectively. CD balances increased by 6%. Increasing lower and no cost balances were primarily responsible for the 2% decrease in interest expense for 1999. The cost of funds for the Bank averaged 1.7% for 1999 compared to 1.9% for 1998.

Loan Loss Provision

The Bank provided a loan loss provision of $250,000 for 1999, compared to $150,000 for 1998. The allowance for possible loan losses was $4,400,000 and $4,100,000 as of December 31, 1999 and 1998, respectively. Delinquencies, as a percentage of outstanding loans, amounted to 57 basis points and 46 basis points as of December 31, 1999 and 1998, respectively. The ratio of the loan loss reserve to non-performing loans was 556% and 832% as of December 31, 1999 and 1998, respectively. Non-performing loans amounted to $792,000 at December 31, 1999, a 61% increase from $493,000 at December 31, 1998. The primary cause of this increase was the reinstatement of a loan to non-performing status that had been included in the Bank's OREO at December 31, 1998. Total non-performing assets, including OREO, increased by 4% from $764,000 at December 31, 1998, to $792,000 at December 31, 1999. The allowance for possible loan losses, as a percentage of outstanding loans, was 1.30% as of December 31, 1999, compared to 1.46% as of December 31, 1998. Bank management has determined that the 1999 loan loss provision was sufficient to maintain an adequate level of the allowance for possible loan losses during 1999.

A summary of the changes in the allowance for possible loan losses and a breakdown of loan loss experience by major loan category for each of the past five years follows:

TABLE 5 - Allowance for Possible Loan Losses

(dollars in thousands)	December 31, 1999	1998	1997	1996	1995
Allowance for possible loan losses:					
Balance, January 1	**$4,100**	$4,074	$4,182	$3,652	$3,618
Charge-offs:					
Commercial and industrial	**(10)**	(42)	(196)	(84)	(527)
Real estate—construction...	**—**	—	—	—	—
Real estate—mortgage	**22**	(22)	—	(4)	(8)
Consumer	**(209)**	(179)	(237)	(180)	(234)
Total charge-offs	**(197)**	(243)	(433)	(268)	(769)
Recoveries:					
Commercial and industrial	**87**	100	102	404	236
Real estate—construction...	**116**	—	—	—	—
Real estate—mortgage	**—**	—	—	8	13
Consumer	**44**	19	23	36	54
Total recoveries	**247**	119	125	448	303
Net recoveries/ (charge-offs)	**50**	(124)	(308)	180	(466)
Provision for loan losses	**250**	150	200	350	500
Balance, December 31	**$4,400**	$4,100	$4,074	$4,182	$3,652
Net recoveries/(charge-offs) to average loans	**0.02%**	(0.05%)	(0.12%)	0.07%	(0.21%)

The negative charge-off of $22,000 in real estate - mortgage loans reflects the adding back to the loan loss reserve of an amount previously charged off, in conjunction with the acquisition of other real estate owned.

TABLE 6 - Allocation of Allowance for Possible Loan Losses

The table below allocates the balance of the allowance for possible loan losses by loan category and the corresponding percentage of loans to total loans for each loan category for the last five years:

	December 31, 1999		1998		1997		1996		1995	
(dollars in thousands)		% Loans to Total Loans		% Loans to Total Loans		% Loans to Total Loans		% Loans to Total Loans		% Loans to Total Loans
Balance at end of period applicable to:										
Commercial and industrial	**$ 151**	**39.7%**	$ 427	31.8%	$ 316	28.1%	$ 483	28.8%	$1,295	28.7%
Real estate—construction	**33**	**4.2**	81	4.7	1,111	5.1	751	2.9	648	3.8
Real estate—mortgage	**228**	**35.4**	161	39.3	184	38.2	289	36.9	259	36.4
Consumer	**279**	**20.7**	301	24.2	465	28.6	609	31.4	619	31.1
Unallocated	**3,709**	**—**	3,130	—	1,998	—	2,050	—	831	—
Total	**$4,400**	**100.0%**	$4,100	100.0%	$4,074	100.0%	$4,182	100.0%	$3,652	100.0%

The loan loss reserve allocation reflects a reserve based on specific loan loss reserve allocations on loans reviewed individually as well as an average historical loan write-off percentage for loans in each specific loan category not individually reviewed and is also increased by an additional percentage to reflect current market conditions. As a part of the internal loan review process, loans considered impaired under SFAS NO. 114 are individually reviewed and, when deemed appropriate, a specific portion of the loan loss reserve is allocated to the respective impaired loans.

Refer to page 14 for further discussion of the Corporation's loan review process.

Other Income

The following table details other income for the years ended December 31, 1999 and 1998, and the percent change from year to year:

TABLE 7 - Other Income

	1999	1998	% Change
Fees for trust services	$ 9,784	$ 9,272	6%
Service charges on deposit accounts	1,156	1,169	(1%)
Other fees and service charges	1,333	1,272	5%
Net gain on sale of loans	1,028	1,682	(39%)
Gain on sale of other real estate owned	45	224	(80%)
Fees earned from family business office services	1,947	—	—
Investment advisory and brokerage fees	1,218	—	—
Tax consulting fees	702	655	7%
Insurance commission income	326	188	73%
Other operating income	1,071	614	74%
	$18,610	$15,076	23%

In addition to net interest income, the Bank's three operating segments, as well as TCBM, ICBM, BM Brokerage, CDC and JWR&Co. generate various streams of fee-based income, including Investment Management and Trust income, service charges on deposit accounts, loan servicing income, consulting fees and gains/losses on loan sales.

As discussed in the "Lines of Business" section on pages 3, 4 and 5, the increase in other income in 1999 from 1998 levels was primarily a result of revenues from newly established or acquired lines of business in 1999, an increase in Investment Management and Trust fees and rental income received from the tenants in the Buildings. These increases were partially offset by decreases in gains on the sale of residential mortgage loans and a decrease in OREO gains, compared to 1998.

Fees from the family office business and investment advisory and brokerage fees amounted to $3,165,000. No such fees were earned in 1998.

Trust income grew $512,000 or 6% from year to year. Refer to the discussion under the heading "Investment Management and Trust Line of Business on page 4 of this report.

As discussed in the "Mortgage Banking Line of Business" section, the $654,000 or 39% decrease in gains on the sale of loans was directly attributable to an 45% decrease in the volume of loans sold in 1999 compared to 1998, partially offset by an 11 basis point increase in the yield realized on the sale of loans in 1999 compared to 1998.

Gains on the sale of OREO decreased by $179,000 or 80%. This is a direct result of the Bank disposing of the majority of its OREO prior to 1999.

Tax consulting and insurance commission income increased $47,000 or 7% and $138,000 or 73%, respectively.

Other operating income increased $457,000 or 74% in 1999 from 1998 levels, primarily due to new sources of rental income from the Buildings, adding $250,000 in new other operating income, not present in 1998. Fees from merchant credit card processing increased by $92,000 over 1998 levels and cash management related fee income grew by $65,000. This growth is directly attributable to growth in the banks off-balance sheet mutual fund balances, which increased from $43,007,000 at December 31, 1998 to $100,372,000 at December 31, 1999. Exclusive of these increased revenue streams, other operating income increased by $50,000 for 1999, compared to 1998.

Other Expenses

The following table details other expenses for the years ended December 31, 1999 and 1998, and the percent change from year to year:

TABLE 8 - Other Expenses

	1999	1998	% Change
Salaries-regular	$12,446	$10,289	21%
Salaries-other	2,226	2,375	(6%)
Employee benefits	2,334	1,908	22%
Occupancy expense	1,928	1,392	39%
Furniture, fixtures, and equipment	1,968	1,817	8%
Advertising	1,290	1,283	1%
Professional fees	1,148	811	42%
Computer processing	560	569	(2%)
Merchant credit card processing	524	466	12%
Stationery and supplies	408	354	15%
Insurance	373	213	75%
Amortization of goodwill	183	—	—
Net cost of operation of other real estate owned	8	7	14%
Other operating expenses	3,584	3,211	12%
Total other expenses	$28,980	$24,695	17%

Other expenses increased for the year ended December 31, 1999, by 17% compared to 1998. Regular salaries, consisting of regular, part time and overtime salary expense and the largest component of other expenses, rose 21%, due primarily to the New Acquisitions in 1999. Exclusive of regular salary expense from Brokerage, CDC and JWR&Co., which produced no expense in 1998, total regular salaries increased by 10%. Merit increases and staffing additions, during 1999, are primarily responsible for this increase. As of December 31, 1999, the Corporation's consolidated full-time equivalent staffing level was 266.5 compared to 239.5 as of December 31, 1998.

Other salaries, which primarily consist of incentive compensation, decreased 6% from 1998 to 1999. The $149,000 decrease was primarily related to Investment Management and Trust incentive-based compensation.

Employee benefit costs increased $426,000 or 22% in 1999 over 1998 levels. Of this increase, $119,000 relates to the newly acquired or started companies in 1999. A $158,000 increase in the cost of the Corporation's pension expense, along with $76,000 and $45,000 respective increases in the cost of the Bank's social security taxes and medical insurance premiums account for $398,000 of the $426,000 increase. Additional participants in the pension plan, as well as an increased staff are the primary reasons for these increased expense categories.

Occupancy expenses increased $536,000 or 39% from 1998 to 1999. The largest increase relates to occupancy costs associated with the Buildings, which amounted to $294,000 for 1999. No such expenses were incurred during 1998. The cost to the Bank for use of the Buildings in 1999, net of the respective rental income was $61,000. Increased office rent expense for Investment Counsellors of Bryn Mawr, a division of the Investment Management and Trust Division, amounted to $38,000, compared to similar rent expense for 1998, and occupancy expense associated with the New Acquisitions amounted to $182,000, accounting for $514,000 of the $536,000 increase.

Furniture, fixtures and equipment expense increased by $151,000 or 8% in 1999, compared to 1998. The rental of office equipment increased $46,000, as some Bank departments were relocated, in anticipation of renovations within the main Bank building.

Depreciation expense for the Bank was also up by $51,000, reflecting the effect of capital improvements made during 1999. Expenses associated with the New Acquisitions in 1999 amounted to $69,000.

Advertising remained relatively level for 1999, compared to 1998, at $1,290,000 and $1,283,000 for the respective periods.

The cost of merchant credit card processing increased $68,000 or 15% as the volume of merchant processing increased. These fees were more that offset by related revenues, included in other operating income.

The cost of professional fees increased by $337,000 or 42%. The primary reason for this increase was solicitation fees paid for business referrals to CDC in the routine operation of CDC's investment advisory business. CDC incurred $565,000 in solicitation fees in 1999. No such fees were incurred during 1998. Exclusive of these solicitation fees, professional fees decreased by $228,000 or 28% for the twelve months ended December 31, 1999, compared to the same period in 1998. A recovery of legal fees in 1999, related to a previously charged-off loan, was primarily responsible for this decrease in professional fees.

Stationery and supplies expense increased $54,000 or 15% in 1999, compared to 1998, due primarily to additional costs in 1999, associated with the production of new product brochures as well as letterhead for the new subsidiary companies, acquired or established during 1999.

Insurance expense increased by $160,000 or 75%. Insurance expense is composed of the premiums paid to The Federal Deposit Insurance Corporation (the "FDIC") for deposit insurance, as well as the cost of the Corporation's business insurance coverage. FDIC insurance premiums remained level from 1998 to 1999, while the Corporation's business insurance premiums accounted for the $160,000 increase during 1999, compared to similar premiums in 1998. Expanded policy limits and the addition of the New Acquisitions were responsible for this increase.

Goodwill amounting to $3,477,000 was recorded on the Corporation's books as a result of the acquisition of CDC and JWR&Co. Their respective amortization periods are 10 and 20 years. The goodwill is being amortized on a straight-line method at a cost of $183,000 for 1999. No such cost was incurred for 1998.

Other operating expenses increased $373,000 or 12% from 1998 to 1999. Included in 1999's expense were expenses of the New Acquisitions of $238,000. Exclusive of these expenses, other operating expenses increased by 4% over 1998 levels.

Income Taxes

Federal income taxes for 1999 were $3,879,000, compared to $3,480,000 for 1998. This represents an effective tax rate of 32.8% and 33.7% for 1999 and 1998, respectively. Income taxes for financial reporting purposes differ from the amount computed by applying the statutory rate to income before taxes, due primarily to tax-exempt income from certain loans and investment securities. See Note 10 to the consolidated financial statements.

Investment Securities

Management has elected to classify 100% of the investment portfolio as available for sale. Therefore, the investment portfolio was carried at its estimated market value of $29,611,000 and $50,960,000 as of December 31, 1999 and 1998, respectively. The amortized cost of the portfolio as of December 31, 1999 was $30,201,000, resulting in net unrealized losses of $590,000. The amortized cost of the portfolio at December 31, 1998 was $50,808,000, resulting in net unrealized gains of $152,000.

The maturity distribution and weighted average yields on a fully tax-equivalent basis of investment securities at December 31, 1999, are as follows:

TABLE 9 - Investment Portfolio

(dollars in thousands)	Maturing during 2000	Maturing from 2001 through 2004	Maturing from 2005 through 2009	Maturing after 2009	Total
Obligations of the U.S. Government and agencies:					
Book value	$1,993	$22,432	$ —	$ —	$24,425
Weighted average yield	6.0%	5.5%	—	—	5.6%
State and political subdivisions:					
Book value	1,478	1,740	—	—	3,218
Weighted average yield	7.0%	6.3%	—	—	6.6%
Other investment securities:					
Book value	—	—	—	1,968	1,968
Weighted average yield	—	—	—	6.2%	6.2%
Total book value	$3,471	$24,172	$ —	$1,968	$29,611
Weighted average yield	6.3%	5.6%	—	6.2%	5.8%

In addition to $57,180,000 in maturities, during 1999, $6,000,000 in municipal bonds were called. These increases in available funds, combined with an increase in total deposits for 1999 of $28,711,000, partially offset by net originations of the loan portfolio of $21,728,000 prompted Bank management to purchase $42,553,000 in U.S. Government or U.S. Government Agency securities. Those transactions were primarily responsible for the $21,262,000 or 42% decrease in the investment portfolio from December 31, 1998, to December 31, 1999. At December 31, 1999, approximately 82% of the investment portfolio consisted of fixed rate U.S. Government and U.S. Government Agency securities. The Corporation does not own any derivative instruments and does not plan to purchase any of those instruments in the foreseeable future.

Loans

For financial reporting purposes, both fixed and floating rate home equity loans, collateralized by mortgages, are included in other permanent mortgage loans. Floating rate personal lines of credit loans (the Bank's "CreditLine" product) are included in consumer loans.

A breakdown of the loan portfolio by major categories at December 31 for each of the last five years is as follows:

TABLE 10 - Loan Portfolio

(in thousands)	December 31 1999	1998	1997	1996	1995
Real estate loans:					
Permanent mortgage loans	**$134,495**	$110,535	$102,474	$ 95,588	$ 85,752
Construction loans	**14,398**	13,204	13,647	7,639	8,905
Commercial and industrial loans	**119,835**	89,368	75,474	74,688	67,507
Consumer loans	**70,211**	68,078	76,963	81,512	73,189
Total	**$338,939**	$281,185	$268,558	$259,427	$235,353

The maturity distribution of the loan portfolio, excluding loans secured by one-family residential property and consumer loans, at December 31, 1999, is shown below.

(in thousands)	Maturing during 2000	Maturing from 2001 through 2004	Maturing after 2004	Total
Commercial, financial, and agricultural	$65,367	$27,308	$27,160	$119,835
Real estate—construction	7,858	6,538	2	14,398
Real estate—other	1,817	12,135	40,176	54,128
Total	$75,042	$45,981	$67,338	$188,361
Interest sensitivity on the above loans:				
Loans with predetermined rates	$ 8,817	$28,765	$20,767	$ 58,349
Loans with adjustable or floating rates	66,225	17,216	46,571	130,012
Total	$75,042	$45,981	$67,338	$188,361

There are no scheduled prepayments on the loans included in the maturity distributions.

TABLE 11 - Loan Portfolio and Non-Performing Asset Analysis

	Loan Portfolio				Nonperforming Assets			Loan Loss Reserve
(in thousands)	Current	Past Due 30 to 89 Days	Past Due 90 Days or More	Total Loans	Non-Performing Loans*	Other Real Estate Owned	Total Non-Performing Assets	Reserve for Loan Loss Allocation
Real estate loans:								
Permanent mortgage loans:								
Residential	$ 26,035	$ 258	$ 41	$ 26,334	$ 41	$—	$ 41	$ —
Commercial	53,402	47	679	54,128	679	—	679	—
Home equity	53,797	217	19	54,033	19	—	19	—
Total permanent mortgage loans	133,234	522	739	134,495	739	—	739	228
Construction mortgage loans:								
Residential	14,396	—	—	14,396	—	—	—	—
Commercial	2	—	—	2	—	—	—	—
Total construction mortgage loans	14,398	—	—	14,398	—	—	—	33
Total real estate loans	147,632	522	739	148,893	739	—	739	261
Commercial and industrial loans	119,523	312	—	119,835	—	—	—	—
Total commercial and industrial loans	119,523	312	—	119,835	—	—	—	151
Consumer loans:								
Direct	9,162	17	4	9,183	4	—	4	—
Indirect	58,438	272	49	58,759	49	—	49	—
CreditLine	2,253	16	—	2,269	—	—	—	—
Total consumer loans	69,853	305	53	70,211	53	—	53	279
Unallocated reserve for loan loss	—	—	—	—	—	—	—	3,709
Total	$337,008	$1,139	$792	$338,939	$792	$—	$792	$4,400

* *Nonperforming loans are loans on which scheduled principal and/or interest is past due 90 days or more and loans less than 90 days past due which are deemed to be problem loans by management. Total nonperforming loans of $792,000 includes the $792,000 in loans past due 90 days or more, on which certain borrowers have paid interest regularly. There are no loans less than 90 days delinquent included in nonperforming loans.*

The Bank's lending function is its principal income generating activity, and it is the Bank's policy to continue to serve the credit needs of its market area. Total loans at December 31, 1999 increased 21% to $338,939,000 from $281,185,000 as of December 31, 1998.

The Bank's commercial and industrial lending had the largest growth in outstanding loan balances from year to year. Commercial and industrial loan balances grew $30,467,000 or 34% from $89,368,000 at December 31, 1998 to $119,835,000 at December 31, 1999. Increased business development in the Bank's commercial lending market area, the addition of experienced commercial lenders, and the emergence of new commercial lending relationships, partially the result of recent banking mergers in the Bank's market area, are the reasons for this strong growth.

Permanent mortgage loans, which consist of commercial and residential mortgages as well as home equity loans, increased by 22% or $23,960,000 during 1999, from $110,535,000 at December 31, 1998, to $134,495,000 at December 31, 1999. This growth was due primarily to a $10,427,000 or 66% increase in residential mortgage loans, as the Bank decided to increase its outstanding balances of residential mortgage loans. Home equity loans increased by $9,561,000 or 21%, commercial mortgage loans increased by $3,972,000 or 8%.

Consumer loans, consisting of loans to individuals for household, automobile, family, and other consumer needs, as well as purchased indirect automobile paper from automobile dealers in the Bank's market area, increased $2,133,000 or 3%, from $68,078,000 at December 31, 1998, to $70,211,000 at December 31, 1999. While average outstanding consumer loan balances decreased by 4% during 1999, during the later half of 1999, outstanding indirect automobile paper accounted for the largest increase, growing $1,726,000 or 3% to $58,758,000 for December 31, 1999 compared to $57,032,000 at December 31, 1998. Competition from automobile manufacturers' credit facilities and lower costing financing from home equity loans continues to be a source of major competition for this product.

As of December 31, 1999, the construction loan portfolio increased by $1,194,000 or 9%, from $13,204,000 at December 31, 1998, to $14,398,000 at December 31, 1999. As of December 31, 1998 and 1999, the construction lending portfolio had neither non-performing loans nor any loans delinquent 30 days or more.

Deposits

The Bank attracts deposits from within its market area by offering various deposit instruments, including savings accounts, NOW accounts, money market accounts, and certificates of deposit.

Total deposits increased 8% to $371,068,000 at December 31, 1999, from $342,357,000 at year-end 1998. A more meaningful measure of deposit change is average daily balances. As illustrated in Table 12, average daily deposit balances increased 9%. It is believed that bank consolidation within the Bank's market area, as well as the acquisition of new deposit accounts through the growth of new lending and Investment Management and Trust relationships, are primarily responsible for this growth in deposits. As previously discussed, this change in the mix of deposits, growing lower costing and non-interest bearing deposits is primarily responsible for a 22 basis point decrease in the Bank's overall cost of funds and a 13 basis point increase in the Bank's net interest margin for 1999, compared to 1998.

The following table presents the average balances of deposits and the percentage change for the years indicated:

TABLE 12 - Average Daily Balances of Deposits

(dollars in thousands)	1999	1998	% Change 1999 vs. 1998	1997	% Change 1998 vs. 1997
Demand deposits, non-interest-bearing	$ 92,098	$ 82,773	11.3%	$ 76,076	8.8%
Market rate accounts	49,871	44,325	12.5	45,903	(3.4)
NOW accounts	93,769	85,317	9.9	73,958	15.4
Regular savings	40,865	40,143	1.8	38,891	3.2
	184,505	169,785	8.7	158,752	6.9
Time deposits	65,000	61,503	5.7	73,792	(16.7)
Total	$341,603	$314,061	8.8	$308,620	1.8

The following table shows the maturity of certificates of deposit of $100,000 or greater as of December 31, 1999:

TABLE 13 - Maturity of Certificates of Deposits of $100,000 or Greater

(in thousands)	
Three months or less	$15,751
Three to six months	2,689
Six to twelve months	3,833
Greater than twelve months	—
Total	$22,273

Capital Adequacy

At December 31, 1999, total shareholders' equity of the Corporation was $46,719,000, a $4,498,000 or 11% increase over $42,221,000 at December 31, 1998. Decreasing the addition to capital from earnings, less dividends for the year, was the impact of SFAS No. 115. As of December 31, 1999, shareholders' equity included unrealized losses on investment securities, net of deferred taxes, of $389,000 compared to unrealized gains on investment securities, net of taxes, of $100,000 at December 31, 1998. This change caused a $489,000 decrease to shareholders' equity from December 31, 1998 to December 31, 1999.

The Corporation and the Bank are required to meet certain regulatory capital adequacy guidelines. Under these guidelines, risk-based capital ratios measure capital as a percentage of risk-adjusted assets. Risk-adjusted assets are determined by assigning various weights to all assets and off-balance sheet arrangements, such as letters of credit and loan commitments, based on the associated risk.

The Bank's risk-based capital ratios at December 31, 1999 and 1998 are listed below. These ratios are all in excess of the minimum required capital ratios, also listed below.

TABLE 14 - Risk-Based Capital Ratios

	1999		1998	
	Actual	**Minimum Required**	Actual	Minimum Required
Tier I capital ratio	**10.34%**	**4.00%**	12.42%	4.00%
Total capital ratio	**11.54**	**8.00**	13.67	8.00

An increase in risk weighted assets at December 31, 1999, compared to last year-end, combined with the effect of dividends paid to the Corporation during 1999 to fund both the Corporation's Stock Repurchase Program and the purchase of JWR&Co. are the primary reasons for the decreases in both the Bank's Tier I and Total Capital ratios from December 31, 1998 to December 31, 1999.

The FDIC has created a statutory framework for capital requirements that established five categories of capital strength, ranging from a high of "well-capitalized" to a low of "critically under capitalized." As of December 31, 1999 and 1998, the Bank exceeded the levels required to meet the definition of a "well-capitalized" bank. Management anticipates that the Corporation and the Bank will continue to be in compliance with all capital requirements and continue to be classified as "well-capitalized."

The Corporation's ability to declare dividends in the future is dependent on future earnings.

Risk Elements

Risk elements, as defined by the Securities and Exchange Commission in its Industry Guide 3, are composed of four specific categories: (1) nonaccrual, past due, and restructured loans, (2) potential problem loans, loans not included in the first category, but where information known by Bank management indicates that the borrower may not be able to comply with present payment terms, (3) foreign loans outstanding, and (4) loan concentrations. Table 11 presents a summary, by loan type, of the Bank's nonaccrual and past due loans as of December 31, 1999. It is the Bank's policy to promptly place non-performing loans on non-accrual status. Bank management knows of no outstanding loans that presently would meet the criteria for inclusion in the potential problem loan category, as indicated under specific category (2) referred to above. The Bank has no foreign loans, and loan concentrations are presented in Table 6. Table 6 presents the percentage of outstanding loans, by loan type, compared to total loans outstanding as of December 31, 1999.

Asset Quality

The Bank is committed to maintaining and developing quality assets. Loan growth is generated primarily within the Bank's market area, which includes Montgomery, Delaware, and Chester Counties, as well as portions of Bucks and Philadelphia Counties. The development of quality loan growth is controlled through a uniform lending policy that defines the lending functions and goals, loan approval process, lending limits, and loan review.

Non-performing assets amounted to $792,000 at December 31, 1999, a 4% increase from $764,000 at December 31, 1998. Non-performing loans were $792,000 at December 31, 1999, a 61% increase from $493,000 at December 31, 1998. The primary cause of this increase was the reinstatement of a loan to non-performing status that had been included in the Bank's OREO at December 31, 1998. There were no OREO properties on the Bank's books as of December 31, 1999, causing a $271,000 decrease in OREO balances from December 31, 1998.

Total nonperforming assets, which include non-accruing and past due loans and other real estate owned, are presented in the table below for each of the five years in the period ended December 31, 1999.

TABLE 15 - Nonperforming Assets

	December 31				
	1999	1998	1997	1996	1995
(in thousands)					
Loans past due 90 days or more not on nonaccrual status:					
Real estate—mortgage	**$ 19**	$ 84	$ 72	$ 68	$ —
Consumer	**53**	56	27	51	155
Loans on which the accrual of interest has been discontinued:					
Commercial and industrial	**—**	—	347	76	339
Real estate—mortgage	**720**	353	723	712	117
Real estate—construction	**—**	—	—	—	—
Total nonperforming loans	**792**	493	1,169	907	611
Other real estate owned and in-substance foreclosed properties*	**—**	271	25	1,523	3,794
Total nonperforming assets	**$792**	$764	$1,194	$2,430	$4,405

All loans past due 90 days or more, except consumer loans and home equity mortgage loans, are placed on nonaccrual status. Such factors as the type and size of the loan, the quality of the collateral, and historical creditworthiness of the borrower and/or guarantors are considered by management in assessing the collectibility of such loans. Interest foregone on nonaccrual status loans was $121,000 for the year ended December 31, *1999. Interest earned and included in interest income on these loans prior to their nonperforming status amounted to $448,000 in 1999.*

** Refer to Note 2 to the consolidated financial statements.*

The Bank maintains a Loan Review Committee (the "Committee") that periodically reviews the status of all non-accrual and impaired loans, loans criticized by both the Bank's regulators and an independent consultant retained to review both the loan portfolio as well as the overall adequacy of the loan loss reserve. The methodology used to arrive at an appropriate allowance for loan loss involves a high degree of management judgement and results in a range of estimated losses. It is the goal of this loan loss reserve adequacy process to provide a loan loss reserve sufficient to address the Bank's potential risk of loan losses, in the existing loan portfolio, during various economic cycles. During the review of the loan loss reserve, the Committee considers allocations of the loan loss reserve on specific loans on a loan-by-loan basis, as well as considering inherent loan losses in specific pools of similar loans, based on prior historical write-off activity, geographic concentrations, industry concentrations and economic factors. The sum of all analyzed loan components is compared to the loan loss reserve balance, and any adjustments deemed necessary to the loan loss reserve balance are made on a timely basis.

The Corporation is regulated and periodically inspected by The Federal Reserve Board. In 1996, the Bank became a state member bank of the Federal Reserve System. The Bank is regulated and periodically examined by the Federal Reserve Board and the Pennsylvania Department of Banking. There are no recommendations by the regulators, which would have a material effect on the Corporation's liquidity, capital resources, or results of operations.

Asset and Liability Management

Through its Asset/Liability Committee ("ALCO") and the application of Risk Management Policies and Procedures, the Bank seeks to minimize its exposure to interest rate risk as well as to maintain sufficient liquidity and capital compliance.

Interest Rate Sensitivity

The difference between interest sensitive assets and interest sensitive deposits, stated in dollars, is referred to as the interest rate sensitivity gap. A positive gap is created when interest rate sensitive assets exceed interest rate sensitive deposits. A positive interest rate sensitive gap will result in a greater portion of assets compared to deposits repricing with changes in interest rates within specified time periods. The opposite effect results from a negative gap. In practice, however, there may be a lag in repricing some products in comparison to others. A positive gap in the short-term, 30 days or less, in a rising interest rate environment should produce an increase in net interest income. The converse is true of a negative gap in a rising interest rate environment.

As shown in the following table, the Bank is presently asset interest rate sensitive in the short-term, 30 days or less category.

TABLE 16 - Interest Rate Sensitivity Analysis as of December 31, 1999

	Repricing Periods						
(dollars in thousands)	0 to 30 Days	31 to 90 Days	91 to 180 Days	181 to 365 Days	Over 1 Year	Non-Rate Sensitive	Total
Assets:							
Interest-bearing deposits with other banks	$ 13,643	$ 47	$ —	$ —	$ —	$ —	$ 13,690
Federal funds sold	17,609	—	—	—	—	—	17,609
Investment securities	—	500	—	2,971	24,172	1,968	29,611
Loans	109,206	13,365	18,723	33,826	163,819	(4,400)	334,539
Cash and due from banks	—	—	—	—	—	17,914	17,914
Other assets	—	—	—	—	—	14,771	14,771
Total assets	$140,458	$13,912	$18,723	$36,797	$187,991	$ 30,253	$428,134
Liabilities and shareholders' equity:							
Demand, noninterest-bearing	$ —	$ —	$ —	$ —	$ —	$100,485	$100,485
Savings deposits	72,772	—	—	—	121,286	—	194,058
Time deposits	17,443	9,222	12,065	23,303	16,187	—	78,220
Other liabilities	10,000	—	—	—	—	7,884	17,884
Shareholders' equity	—	—	—	—	—	37,487	37,487
Total liabilities and shareholders' equity	$100,215	$ 9,222	$12,065	$23,303	$137,473	$145,856	$428,134
Gap	$ 40,243	$ 4,690	$ 6,658	$13,494	$ 50,518	($115,603)	—
Cumulative gap	$ 40,243	$44,933	$51,591	$65,085	$115,603	—	—
Cumulative earning assets as a ratio of interest bearing liabilities	140%	141%	142%	145%	141%	—	—

The Bank uses income simulation models to measure its interest rate risk and to manage its interest rate sensitivity. The simulation models consider not only the impact of changes in interest rates on forecasted net interest income, but also such factors as yield curve relationships, possible loan prepayments, and deposit withdrawals. As of year-end 1999, based on an analysis of the results from the simulation models, the Bank's interest rate risk was within the acceptable range as established by the Bank's Risk Management Policies and Procedures.

While future interest rate movements and their effect on Bank revenue cannot be predicted, there are no trends, events, or uncertainties of which the Corporation's management is currently aware that will have, or are reasonably likely to have, a material effect on the Corporation's liquidity, capital resources, or results of operations in the future.

Liquidity

The Bank's liquidity is maintained by managing its core deposits, purchasing federal funds, selling loans in the secondary market, and borrowing from the Federal Home Loan Bank of Pittsburgh (the "FHLB").

The Bank's liquid assets include cash and cash equivalents as well as certain unpledged investment securities. Bank management has developed a liquidity measure, incorporating its ability to borrow from the FHLB to meet liquidity needs and goals. Periodically, ALCO reviews the Bank's liquidity needs, incorporating the ability to borrow from the FHLB and reports these findings to the Risk Management Committee of the Bank's Board of Directors.

During 1999, cash provided by operations amounted to $8,157,000 and was primarily derived from net income of $7,961,000 for 1999. Cash used for investing activities amounted to $38,127,000. Investment activity provided $20,627,000 in cash, as the balance in the investment portfolio decreased by 42% at December 31, 1999, compared to December 31, 1998. Loan activity, including the purchase of $33,951,000 in indirect automobile paper, used $55,679,000 in funds during 1999. The cash portion of the cost of acquiring the New Acquisitions amounted to $1,975,000. The cost of premises' improvements and the purchase of equipment used $1,104,000.

Offsetting the decrease in funds from investing activities was an increase in funds from the Bank's financing activities, which provided $33,851,000 in net cash, primarily the result of a $14,216,000 net increase in outstanding non-interest-bearing demand and savings related deposits, along with a $14,465,000 increase in time deposits. The Bank also borrowed $10,000,000, primarily for liquidity purposes, from the FHLB.

The Corporation used $30,000 in repayment of its mortgage debt. The Corporation received $303,000 in proceeds from the issuance of common stock, related to stock option exercises and used $2,530,000 to repurchase, pursuant to the Stock Repurchase Program, common stock and $2,603,000 to pay the dividend in 1999. The Corporation's cash and cash equivalents increased from December 31, 1998, to December 31, 1999, by $3,881,000, from $45,332,000 at December 31, 1998 to $49,213,000 at December 31, 1999.

OTHER

Year 2000

During the past two years, the Corporation organized a Year 2000 ("Y2K") team (the "Team") to implement a plan assuring that all internal systems, borrowers and vendors were Y2K compliant. The Team successfully met its goals. The conversion from 1999 to the year 2000 was an uneventful one for the Corporation, its subsidiaries, as well as its borrowers and vendors. With minor exceptions, all systems were properly working at the commencement of business on January 3, 2000.

The cost of Y2K compliance for the Corporation amounted to $585,000.

1998 vs. 1997 Results of Operations

Net Income

Net income for the year ended December 31, 1998, was $6,857,000, a 12% increase over net income of $6,130,000 for the year ended December 31, 1997. Basic earnings per share rose from $1.38 in 1997 to $1.58 in 1998. Earnings per share-assuming dilution was $1.33 for 1997 compared to $1.51 in 1998. In 1997, the Corporation paid dividends of $0.36 per share. In 1998, the Corporation paid dividends of $0.465 per share.

Return on average assets was 1.74% for 1997 compared to 1.91% in 1998. Return on average equity was 16.45% in 1997 versus 17.06% in 1998.

Net Interest Income

A 4% increase in average earning assets, from 1997 to 1998, was primarily responsible of a $1,122,000 or a 4% rise in interest income.

Interest expense decreased 14% or $953,000 from 1997 to 1998. The primary reason for this decrease was a 17% decrease in average outstanding higher costing CDs.

Net interest income increased 12%, while the net interest margin increased from 5.59% for 1997 to 5.99% for 1998.

Loan Loss Provision

The provision for loan losses amounted to $200,000 for 1997 and was decreased to $150,000 for 1998. The allowance for possible loan losses as a percentage of non-performing loans amounted to 349% and 832% as of December 31, 1997 and 1998, respectively. The ratio of the allowance for possible loan losses to total outstanding loans was 1.52% and 1.46% at December 31, 1997 and 1998, respectively.

Other Income

Other income increased 25% in 1998 from 1997 levels. Fees for Investment Management and Trust services increased $1,574,000 or 20%. Net gains on the sale of mortgage loans increased $548,000 or 48%, due primarily to an increase in the sale of residential mortgage loans to the secondary mortgage market, from $75,874,000 in 1997 compared to $134,676,000 in 1998.

Other Expenses

Other expenses increased by $3,858,000 or 19% in 1998 over 1997. Regular salaries increased $1,685,000 or 20%, due primarily to merit increases and staffing additions, including the establishment of TCBM in July 1997 and ICBM in January 1998. Salaries-other, primarily incentive based, increased $720,000 or 44%. Increases in incentive based compensation, tied to overall profitability of the Bank's lines of business accounted for this increase.

Employee benefit costs increased by $117,000 or 7%. Decreases in the cost of post-retirement benefits of $242,000 and $170,000 in pension costs were offset by increases of $398,000, $111,000 and $66,000 in social security tax expense, medical and life insurance premiums and the Corporation's supplemental employee retirement plan, respectively.

The $252,000 or 16% increase in furniture, fixtures and equipment expense was primarily due to the additional depreciation on fixed assets.

Advertising increased $214,000 or 20%, reflecting the establishment of new marketing initiatives.

The cost of merchant credit card processing increased $76,000 or 19%, as the volume of merchant processing increased.

Insurance, including the Corporation's business coverage premiums and FDIC deposit insurance premiums, increased by $25,000 or 13% in 1998 compared to 1997 levels. FDIC insurance premiums remained level from 1997 levels. The cost of the Corporation's insurance coverage increased, partially reflecting the addition of TCBM and ICBM in 1998 for a full year.

Other operating expenses increased $738,000 or 30% from 1997 to 1998. Appraisal fees, directly related to the growth in mortgage banking activity, increased by $130,000 over 1997 levels. The cost of Y2K compliance increased by $79,000 over 1997 and travel and entertainment expense grew by $70,000.

Income Taxes

The income tax provision for 1998 was $3,480,000, or a 33.7% effective rate, compared to $2,950,000, or a 32.5% effective rate, for 1997.

Consolidated Balance Sheets

As of December 31,	1999	1998*
	(in thousands)	
Assets		
Cash and due from banks	$ 17,914	$ 19,810
Interest-bearing deposits with other banks	13,793	5,166
Federal funds sold	17,609	20,372
Investment securities available for sale, at market value (amortized cost of $30,201,000 and $50,808,000 at December 31, 1999 and 1998, respectively)	29,611	50,960
Loans	338,939	281,185
Less: Allowance for possible loan losses	(4,400)	(4,100)
Net loans	334,539	277,085
Premises and equipment, net	11,880	12,209
Accrued interest receivable	2,411	2,069
Goodwill	3,294	—
Deferred federal income taxes	1,440	1,086
Other real estate owned	—	271
Other assets	4,329	2,812
Total assets	$436,820	$391,840
Liabilities		
Deposits:		
Demand, noninterest-bearing	$ 98,790	$ 88,937
Savings	194,057	189,695
Time	78,221	63,725
Total deposits	371,068	342,357
Short term borrowings	10,000	—
Other liabilities	9,033	7,262
Total liabilities	390,101	349,619
Commitments and contingencies (Note 14)		
Shareholders' equity		
Common stock, par value $1, authorized, 25,000,000 shares, issued 5,179,608 shares and 5,067,078 shares as of December 31, 1999 and 1998, respectively, and outstanding 4,323,250 shares and 4,303,818 shares as of December 31, 1999 and 1998, respectively	5,180	5,067
Paid-in capital in excess of par value	4,467	2,478
Unrealized investment (depreciation) appreciation, net of deferred income taxes	(389)	100
Retained earnings	45,149	39,791
	54,407	47,436
Less: Common stock in treasury, at cost — 856,358 and 763,260 shares at December 31, 1999 and 1998, respectively	(7,688)	(5,215)
Total shareholders' equity	46,719	42,221
Total liabilities and shareholders' equity	$436,820	$391,840

The accompanying notes are an integral part of the consolidated financial statements.
**Reclassified for comparative purposes.*

Consolidated Statements of Income

For the years ended December 31,	1999	1998*	1997*
	(in thousands, except for share and per share data)		
Net interest income:			
Interest income:			
Interest and fees on loans	$ 25,724	$ 23,085	$ 21,746
Interest on federal funds sold	609	824	935
Interest and dividends on investment securities:			
Taxable interest income	1,702	1,864	1,916
Tax-exempt interest income	183	224	283
Dividend income	99	85	80
Total interest income	28,317	26,082	24,960
Interest expense	5,857	5,976	6,929
Net interest income	22,460	20,106	18,031
Loan loss provision	250	150	200
Net interest income after loan loss provision	22,210	19,956	17,831
Other income:			
Fees for investment management and trust services	9,784	9,272	7,698
Service charges on deposit accounts	1,156	1,169	1,124
Other fees and service charges	1,333	1,272	1,090
Net gain on sale of loans	1,028	1,682	1,134
Gain on sale of other real estate owned	45	224	379
Fees earned from family business office services	1,947	—	—
Investment advisory and brokerage fees	1,218	—	—
Tax consulting fees	702	655	134
Insurance commission income	326	188	—
Other operating income	1,071	614	527
Total other income	18,610	15,076	12,086
Other expenses:			
Salaries-regular	12,446	10,289	8,604
Salaries-other	2,226	2,375	1,655
Employee benefits	2,334	1,908	1,791
Occupancy expense	1,928	1,392	1,365
Furniture, fixtures, and equipment	1,968	1,817	1,565
Advertising	1,290	1,283	1,069
Professional fees	1,148	811	822
Computer processing	560	569	584
Merchant credit card processing	524	466	390
Stationery and supplies	408	354	322
Insurance	373	213	188
Goodwill amortization	183	—	—
Net cost of operation of other real estate owned	8	7	9
Other operating expenses	3,584	3,211	2,473
Total other expenses	28,980	24,695	20,837
Income before income taxes	11,840	10,337	9,080
Applicable income taxes	3,879	3,480	2,950
Net income	$ 7,961	$ 6,857	$ 6,130
Earnings per common share	$ 1.83	$ 1.58	$ 1.40
Earnings per common share-assuming dilution	$ 1.75	$ 1.51	$ 1.33
Weighted-average shares outstanding	4,349,403	4,327,297	4,392,162
Dilutive potential common shares	193,915	225,708	203,660
Adjusted weighted-average shares	4,543,318	4,553,005	4,595,822

The accompanying notes are an integral part of the consolidated financial statements.
**Reclassified for comparative purposes.*

Consolidated Statements of Cash Flows

For the years ended December 31,	1999	1998*	1997*
	(in thousands)		
Operating activities:			
Net income	**$ 7,961**	$ 6,857	$ 6,130
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**250**	150	200
Provision for depreciation and amortization	**1,319**	1,333	1,091
Loans originated for resale	**(75,502)**	(132,175)	(78,407)
Proceeds from sale of loans	**74,505**	135,494	75,874
Net gain on sale of loans	**(1,028)**	(1,682)	(509)
Net gain on disposal of other real estate owned	**(45)**	(224)	(379)
Provision for deferred income taxes	**(197)**	(20)	194
Change in income taxes payable/refundable	**1,624**	(405)	—
Change in accrued interest receivable	**(342)**	(30)	125
Change in accrued interest payable	**179**	207	(345)
Other	**(567)**	496	1,485
Net cash provided by operating activities	**8,157**	10,001	5,459
Investing activities:			
Purchases of investment securities	**(42,553)**	(36,683)	(30,013)
Proceeds from maturities of investment securities	**57,180**	11,415	15,200
Proceeds from sales of investment securities available for sale	**—**	—	27
Proceeds from calls of investment securities	**6,000**	15,002	8,955
Proceeds on disposition of other real estate owned	**45**	249	1,879
Purchase of other real estate owned	**—**	(271)	—
Capitalization of costs of other real estate owned	**(41)**	—	(2)
Net loan (originations) repayments	**(21,728)**	10,954	26,462
Purchase of automobile retail installment contracts	**(33,951)**	(26,206)	(32,859)
Cost of acquiring new subsidiaries	**(1,975)**	—	—
Purchases of premises and equipment	**(1,104)**	(1,737)	(1,542)
Net cash used in investing activities	**(38,127)**	(27,277)	(11,893)
Financing activities:			
Change in demand and savings deposits	**14,216**	11,705	22,622
Change in time deposits	**14,495**	1,846	3,001
Dividends paid	**(2,603)**	(2,012)	(1,583)
Repayment of mortgage debt	**(30)**	(26)	(1,809)
Proceeds from issuance of common stock	**303**	432	260
Proceeds from borrowed funds	**10,000**	—	—
Purchase of treasury stock	**(2,530)**	(2,519)	(1,329)
Net cash provided by financing activities	**33,851**	9,426	21,162
Change in cash and cash equivalents	**3,881**	(7,850)	14,728
Cash and cash equivalents at beginning of year	**45,332**	53,182	38,454
Cash and cash equivalents at end of year	**$49,213**	$ 45,332	$53,182
Supplemental cash flow information:			
Cash paid during the year for:			
Income taxes	**$ 2,300**	$ 3,861	$ 2,153
Interest	**5,734**	5,827	6,955
Non-cash investing activities:			
Common stock issued for business acquisition:			
Joseph W. Roskos & Company	**$ 2,000**	—	—
CDC Capital Management, Inc.	**281**	—	—

The accompanying notes are an integral part of the consolidated financial statements.
**Reclassified for comparative purposes.*

Consolidated Statements of Changes in Shareholders' Equity

(in thousands, except for shares of common stock)

For the years ended December 31, 1999, 1998 and 1997	Shares of Common Stock issued	Common Stock	Paid-in Capital	Retained Earnings	Unrealized Gains (Losses)	Treasury Stock
Balance, December 31, 1996	2,503,885	$2,504	$4,445	$30,399	($ 1)	($1,539)
Net income	—	—	—	6,130	—	—
Dividends declared, $0.72 per share	—	—	—	(1,583)	—	—
Change in unrealized gains (losses), net of income taxes of $32,000	—	—	—	—	63	—
Purchase of treasury stock	—	—	—	—	—	(1,329)
Retirement of treasury stock	(2,006)	(2)	(99)	—	—	101
Common stock issued	17,500	17	243	—	—	—
Balance, December 31, 1997	2,519,379	2,519	4,589	34,946	62	(2,767)
Net income	—	—	—	6,857	—	—
Dividends declared, $0.465 per share	—	—	—	(2,012)	—	—
Change in unrealized gains (losses), net of income taxes of $52,000	—	—	—	—	38	—
2-for-1 stock split	2,525,339	2,525	(2,525)	—	—	—
Tax benefit from gains on stock option exercise	—	—	173	—	—	—
Purchase of treasury stock	—	—	—	—	—	(2,519)
Retirement of treasury stock	(5,740)	(5)	(163)	—	—	71
Common stock issued	28,100	28	404	—	—	—
Balance, December 31, 1998	5,067,078	5,067	2,478	39,791	100	(5,215)
Net income	—	—	—	7,961	—	—
Dividends declared, $0.60 per share	—	—	—	(2,603)	—	—
Change in unrealized gains (losses), net of income taxes of ($252,000)	—	—	—	—	(489)	—
Tax benefit from gains on stock option exercise	—	—	213	—	—	—
Purchase of treasury stock	—	—	—	—	—	(2,530)
Retirement of treasury stock	(11,059)	(11)	(241)	—	—	57
Common stock issued	123,589	124	2,017	—	—	—
Balance, December 31, 1999	5,179,608	$5,180	$4,467	$45,149	($389)	($7,688)

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

Consolidated Statements of Comprehensive Income

For the years ended December 31,	(in thousands) 1999	1998	1997
Net income	**$7,961**	$6,857	$6,130
Other comprehensive income:			
Unrealized holding (losses) gains arising during the period	**(741)**	59	94
Deferred income tax benefit (expense) on unrealized holding gains (losses) arising during the period	**252**	(21)	(31)
Comprehensive net income	**$7,472**	$6,895	$6,193

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

Notes to Consolidated Financial Statements

1. Basis of Presentation:

The consolidated financial statements include the accounts of Bryn Mawr Bank Corporation (the "Corporation"), The Bryn Mawr Trust Company (the "Bank"), Tax Counsellors of Bryn Mawr Inc. ("TCBM"), Insurance Counsellors of Bryn Mawr, Inc. ("ICBM"), Bryn Mawr Brokerage Company, Inc. ("BM Brokerage"), CDC Capital Management, Inc. ("CDC") and Joseph W. Roskos & Co. ("JWR&Co."). For all years presented, all adjusting entries required for the fair presentation of the financial statements were made. All such adjustments were of a normal recurring nature. All significant intercompany transactions and accounts have been eliminated upon consolidation.

2. Summary of Significant Accounting Policies:

The accounting policies of the Corporation conform to GAAP and to general practices of the banking industry. The significant accounting policies are as follows:

Cash and cash equivalents:

Cash and cash equivalents include cash and due from banks, federal funds sold, and interest-bearing deposits with other banks with original maturities of three months or less. Cash balances reserved to meet regulatory requirements of the Federal Reserve Board amounted to $3,106,000 and $4,909,000 at December 31, 1999 and 1998, respectively.

Investment securities:

Management categorized all of its investment securities as available for sale as part of its asset/liability management strategy since they may be sold in response to changes in interest rates, prepayments, and similar factors. Investments in this classification are reported at the current market value with net unrealized gains or losses, net of the applicable deferred tax effect, being added to or deducted from the Corporation's total shareholders' equity on the balance sheet. As of December 31, 1999, shareholders' equity was decreased by $389,000 due to unrealized losses (net of $201,000 in deferred income tax benefits) of $590,000 in the investment securities portfolio. As of December 31, 1998, shareholders' equity was increased by $100,000 due to unrealized gains (net of $52,000 in deferred income taxes) of $152,000 in the investment securities portfolio.

Loans:

Interest income on loans performing satisfactorily is recognized on the accrual method of accounting. Non-performing loans are loans on which scheduled principal and/or interest is past due 90 days or more or loans less than 90 days past due which are deemed to be problem loans by management. All non-performing loans, except consumer loans, are placed on non-accrual status, and any outstanding interest receivable at the time the loan is deemed non-performing is deducted from interest income. Consumer loan principal and interest balances deemed uncollectable are charged off on a timely basis against the loan loss reserve. The charge-off policy for all loans, including non-performing and impaired loans, considers such factors as the type and size of the loan, the quality of the collateral, and historical creditworthiness of the borrower.

As a part of its internal loan review process, management, when considering making a loan an impaired loan, considers a number of factors, such as a borrower's current financial strength, the value of related collateral and the ability to continue to meet the original contractual terms of a loan. Major risk classifications, used to aggregate loans include both credit risk or the risk of failure to repay a loan and concentration risk. A loan is not considered impaired if there is merely an insignificant delay or shortfall in the amounts of payments. An insignificant delay or shortfall is a temporary delay in the payment process of a loan. However, under these circumstances, the Bank expects to collect all amounts due, including interest accrued at the contractual interest rate for the period of the delay.

When a borrower is deemed to be unable to meet the original terms of a loan, the loan is considered impaired. While all impaired loans are not necessarily considered non-performing loans, if a loan is delinquent for 90 days or more, it is considered both a non-performing and impaired loan. All of the Corporation's impaired loans, which amounted to $720,000 and $1,718,000 at December 31, 1999 and 1998, respectively, were put on a non-accrual basis and any outstanding accrued interest receivable on such loans, at the time they were put on a non-accrual status, was reversed from income. Impaired loans are required to be measured based upon the present value of expected future cash flows, discounted at the loan's initial effective interest rate or at the loan's market price or fair value of the collateral, if the loan is collateral dependent. As of December 31, 1999 and 1998, no impaired loans were measured using the present value of expected future cash flows or at the loan's market price. Impaired loans measured by the fair value of the loan's collateral amounted to $720,000 and $1,718,000, respectively. If the loan valuation is less than the recorded value of the loan, an impairment reserve is established for the difference. As of December 31, 1999 and 1998, there were $679,000 and $935,000, respectively, of impaired loans for which there is a related allowance for loan losses. The total related allowance for loan loss on impaired loans at December 31, 1999 and 1998 was $110,000 and $300,000, respectively. Impaired loans for which no loan loss allowance was allocated amounted to $41,000 and $783,000 at December 31, 1999 and 1998. Average impaired loans during both 1999 and 1998 amounted to $1,088,000 and $2,820,000, respectively.

When a loan is classified as impaired, it is put on non-accrual status and any income subsequently collected is credited to the outstanding principal balance. Therefore, no interest income was reported on outstanding loans while considered impaired in either 1999 or 1998. Loans may be removed from impaired status and returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time and there is a sustained period of repayment performance by the borrower, with a minimum repayment of at least six months, in accordance with the contractual terms of interest and principal. Subsequent income recognition would be recorded under the existing terms of the loan. Based on the above criteria, $1,283,000 in loan balances were removed from impaired status and returned to accrual status during 1999, while no loans considered impaired were removed from impaired status during 1998.

Smaller balance, homogeneous loans, exclusively consumer loans, when included in non-performing loans, for practical consideration, are not put on a non-accrual status nor is the current accrued interest receivable reversed from income. Once deemed uncollectable, these outstanding loan and accumulated interest balances are charged off through the loan loss reserve, on a timely basis.

Loan loss provision:

The loan loss provision charged to operating expenses is based on those factors which, in management's judgement, deserve current recognition in estimating possible loan losses including the continuing evaluation of the loan portfolio and the Bank's past loan loss experience. The allowance for possible loan losses is an amount that management believes will be adequate to absorb losses inherent in existing loans.

Other real estate owned:

Other real estate owned ("OREO") consists of properties acquired by foreclosure. These assets are carried at the lower of cost or estimated fair value at the time the loan is foreclosed less estimated cost to sell. The amounts recoverable from OREO could differ materially from the amounts used in arriving at the net carrying value of the assets because of future market factors beyond the control of the Bank. Costs to improve the property are capitalized, whereas costs of holding the property are charged to expense.

Deferred loan fees:

The Bank defers all loan fees and related direct loan origination costs. Deferred loan fees and costs are generally capitalized and amortized as yield adjustment over the life of the loan using the interest method.

Premises and equipment:

Premises and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed on a straight-line basis over the estimated useful lives, as follows: premises—10 to 50 years, and equipment—3 to 20 years. Leasehold improvements are amortized over the shorter of the estimated useful life or the term of the lease. Maintenance and repairs are charged to expense; major renewals and betterments are capitalized. Gains and losses on dispositions are reflected in current operations.

Income taxes:

The Corporation files a consolidated Federal income tax return with its subsidiaries. Certain items of income and expense (primarily loan origination fees, provision for loan loss and other real estate owned losses) are reported in different periods for tax purposes. Deferred taxes are provided on such temporary differences existing between financial and income tax reporting, subject to the deferred tax asset realization criteria required under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109").

Trust income:

Trust Division income is recognized on the cash basis of accounting. Reporting such income on a cash basis does not materially affect net income.

Goodwill:

The excess of cost over fair market value of net assets acquired through the purchase method of accounting (Goodwill) is being amortized on a straight-line basis over the period of the expected benefit, which ranges from 10 to 20 years. It is Corporation policy that, if any expected benefit from an acquisition becomes impaired, the respective goodwill amount will be charged-off in the period of impairment.

Recently issued accounting standards:

In June 1998, Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) was issued and subsequently amended by Statement of Financial Accounting Standard No. 137 "Accounting of Derivative Instruments and Hedging Activities—Deferral of the effective date of FASB statement No. 133" ("SFAS No. 137").

SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 as amended by SEAS No. 137 is effective for all fiscal quarters beginning after June 15, 2000. The Corporation does not own any derivative instruments and does not engage in hedging activities. These statements will not have a material impact on the financial condition or results of operations of the Corporation.

3. Investment Securities:

The amortized cost and estimated market value of investments, all of which were classified as available for sale, are as follows:

	As of December 31, 1999:			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of the U.S. Government and agencies	$25,017	$—	$593	$24,424
State and political subdivisions	3,230	4	15	3,219
Other securities	1,954	14	—	1,968
Total	$30,201	$18	$608	$29,611

	As of December 31, 1998:			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of the U.S. Government and agencies	$44,838	$ 99	$26	$44,911
State and political subdivisions	4,612	62	—	4,674
Other securities	1,358	17	—	1,375
Total	$50,808	$178	$26	$50,960

At December 31, 1999, securities having a book value of $10,525,000 were pledged as collateral for public funds, trust deposits, and other purposes.

The amortized cost and estimated market value of investment securities at December 31, 1999, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	1999	
(in thousands)	Amortized Cost	Estimated Market Value
Due in one year or less	$ 3,475	$ 3,471
Due after one year through five years	24,772	24,172
Due after five years through ten years	—	—
Due after ten years	—	—
Other securities	1,954	1,968
Total	$30,201	$29,611

There were no sales of debt securities during 1999, 1998 or 1997.

4. Loans:

Loans outstanding at December 31 are detailed by category as follows:

(in thousands)	1999	1998
Real estate loans:		
Permanent mortgage loans	**$134,960**	$110,963
Construction loans	**14,496**	13,295
Commercial and industrial loans	**119,835**	89,368
Loans to individuals for household, family, and other consumer expenditures	**70,211**	68,078
Subtotal	**339,502**	281,704
Less: Allowance for loan losses	**(4,400)**	(4,100)
Net deferred loan fees	**(563)**	(519)
Loans, net	**$334,539**	$277,085
Unadvanced loan funds	**$113,682**	$ 85,775
Loans with predetermined rates	**187,413**	165,468
Loans with adjustable or floating rates	**151,526**	115,717
Total	**$338,939**	$281,185

All loans past due 90 days or more, except consumer loans, are placed on nonaccrual status. Nonperforming loans amounted to $792,000 and $493,000 at December 31, 1999 and 1998, respectively. Forgone interest on nonaccrual loans was $121,000, $230,000, and $298,000 in 1999, 1998, and 1997, respectively. During 1999, four loans, previously classified as impaired, were returned to performing status, adding $448,000 in interest income in 1999.

5. Allowance for Possible Loan Losses:

The summary of the changes in the allowance for possible loan losses is as follows:

(in thousands)	1999	1998	1997
Balance, January 1	**$4,100**	$4,074	$4,182
Charge-offs	**(197)**	(243)	(433)
Recoveries	**247**	119	125
Net recoveries / (charge-offs)	**50**	(124)	(308)
Loan loss provision	**250**	150	200
Balance, December 31	**$4,400**	$4,100	$4,074

6. Premises and Equipment:

A summary of premises and equipment at December 31, is as follows:

(in thousands)	1999	1998*
Land	**$ 2,973**	$ 2,973
Buildings	**11,439**	11,407
Furniture and equipment	**11,484**	10,362
Leasehold improvements	**494**	389
	26,390	25,131
Less accumulated depreciation	**14,510**	12,922
Total	**$11,880**	$12,209

*Reclassified for comparative purposes.

Depreciation expense for the years ended December 31, 1999, 1998 and 1997 amounted to $1,285,000, $1,221,000 and $988,000, respectively. Future minimum rent commitments (in thousands) under the operating lease is as follows:

2000	$ 223,200
2001	223,200
2002	223,200
2003	223,200
2004	247,872
Thereafter	6,215,693

The lease contains options to extend for one 10 year period. The cost of such rentals is not included in the above. Total rent expense for the year ended December 31, 1999, amounted to $186,000. There was no such rental expense in 1998 and 1997.

As of December 31, 1999, the Corporation has borrowings outstanding of $638,000. The borrowings are collateralized by a property with a book value of $1,651,000. The weighted average interest rate on the borrowings was 8.50% and 8.50% in 1999 and 1998, respectively.

7. Deposits:

Following is a summary of deposits as of December 31:

	1999	1998
Regular savings	**$ 43,186**	$ 40,307
NOW accounts	**98,834**	101,226
Money market accounts	**52,037**	48,162
Time deposits (less than $100,000)	**55,947**	47,201
Time deposits, $100,000 or more	**22,274**	16,524
Total interest-bearing deposits	**272,278**	253,420
Non-interest-bearing deposits	**98,790**	88,937
Total deposits	**$371,068**	$342,357

The aggregate amount of deposit overdrafts included as loans as of December 31, 1999 and 1998 were $37,000 and $161,000, respectively.

Maturity of certificates of deposit:

Maturing during:	$100,000 or more	Less than $100,000
2000	$20,560	$41,473
2001	1,714	12,842
2002	—	1,058
2003	—	334
2004 and thereafter	—	240
Total	$22,274	$55,947

8. Short Term Borrowings:

The Bank had outstanding short term borrowings from the Federal Home Loan Bank of Pittsburgh of $10,000,000 as of December 31, 1999 with an interest rate of 5.86%, maturing in January, 2000. No such borrowings were outstanding as of December 31, 1998.

9. Disclosure About Fair Value of Financial Instruments:

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" ("SFAS No. 107"), requires disclosure of the fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate such value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other market value techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

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

Cash and cash equivalents:

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

Investment securities:

Estimated fair values for investment securities are based on quoted market prices, where available.

Loans:

For variable rate loans that reprice frequently and which have no significant change in credit risk, estimated fair values are based on carrying values. Fair values of certain mortgage loans and consumer loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The estimated fair value of nonperforming loans is based on discounted estimated cash flows as determined by the internal loan review of the Bank or the appraised market value of the underlying collateral, as determined by independent third party appraisers.

Deposits:

The estimated fair values disclosed for noninterest-bearing demand deposits, NOW accounts, and Market Rate and Market Rate Checking accounts are, by definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying amounts). Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of expected monthly maturities on the certificate of deposit. SFAS No. 107 defines the fair value of demand deposits as the amount payable on demand and prohibits adjusting estimated fair value from any value derived from retaining those deposits for an expected future period of time.

Short Term Borrowings:

Due to the short term nature of the maturities the carrying amount of the borrowings approximates the fair value.

Other liabilities:

Estimated fair values of long term mortgages, collateralized by one property included in premises and equipment, are based on discounted cash flow analyses, using interest rates currently being offered for similar types of loans and amortizing the loan under existing amortization tables for each loan.

Off-balance sheet instruments:

Estimated fair values of the Corporation's off-balance sheet instruments (standby letters of credit and loan commitments) are based on fees currently charged to enter into similar loan agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. Since fees and rates charged for off-balance sheet items are at market levels when set, there is no material difference between the stated amount and estimated fair values of off-balance sheet instruments.

The carrying amount and estimated fair value of the Corporation's financial instruments at December 31 are as follows:

	1999		1998	
(in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	**$ 17,914**	**$ 17,914**	$ 19,810	$ 19,810
Interest-bearing deposits with other banks	**13,690**	**13,690**	5,151	5,151
Federal funds sold	**17,609**	**17,609**	20,372	20,372
Investment securities	**29,714**	**29,714**	50,976	50,976
Net loans	**334,539**	**337,071**	277,085	283,265
Total financial assets	**$413,466**	**$415,998**	$373,394	$379,574
Financial liabilities:				
Deposits	**$371,068**	**$370,704**	$342,357	$342,465
Short term borrowings	**10,000**	**10,000**	—	—
Other liabilities	**638**	**638**	668	708
Total financial liabilities	**$381,706**	**$381,342**	$343,025	$343,173
Off-balance sheet instruments	**$121,564**	**$121,564**	$ 92,920	$ 92,920

10. Applicable Federal Income Taxes:

The components of the net deferred tax asset as of December 31 are as follows:

(in thousands)	1999	1998
Deferred tax assets:		
Loan loss reserve	**$ 790**	$ 722
Pension and other postretirement benefits	**307**	281
Deferred compensation	**257**	273
Other reserves	**138**	251
Unrealized depreciation on investment securities	**201**	—
	1,693	1,527
Deferred tax liabilities:		
Depreciation	**(253)**	(389)
Unrealized appreciation on investment securities	**—**	(52)
Total net deferred tax assets	**$1,440**	$1,086

No valuation allowance was recorded as of December 31, 1999 and 1998.

The provisions for federal income taxes consist of the following:

(in thousands)	1999	1998	1997
Currently payable	**$4,076**	$3,286	$2,756
Deferred	**(197)**	194	194
Total	**$3,879**	$3,480	$2,950

Applicable federal income taxes differed from the amount derived by applying the statutory federal tax rate to income as follows:

(in thousands)	1999	1998	1997
Tax expense at statutory rate	**$4,026**	$3,515	$3,087
Benefit reductions in taxes resulting from tax-exempt income	**(164)**	(334)	(113)
Other, net	**17**	299	(24)
Actual tax expense	**$3,879**	$3,480	$2,950

11. Pension and Other Postretirement Benefits

The Corporation sponsors two pension plans and a postretirement benefit plan for certain of its employees.

The following tables provide a reconciliation of the changes in the plans' benefits obligation and fair value of assets over the two-year period ending December 31, 1999, and a statement of funded status as of December 31 of both years:

(Dollars in thousands)	Pension Benefits 1999	Pension Benefits 1998	Postretirement Benefits 1999	Postretirement Benefits 1998
Reconciliation of Benefit Obligation and Plan Assets				
Change in benefit obligation				
Benefit obligation at January 1	**$14,746**	$12,623	**$ 1,327**	$ 2,366
Service cost	**927**	701	**7**	9
Interest cost	**1,078**	900	**83**	141
Amendments	**232**	50	**0**	(1,390)
Actuarial (gain) loss	**(924)**	881	**(180)**	390
Benefits paid	**(468)**	(409)	**(105)**	(189)
Benefit obligation at December 31	**$15,591**	$14,746	**$ 1,132**	$ 1,327
Change in plan assets				
Fair value of plan assets at January 1	**$20,698**	$17,527	**$ 0**	$ 0
Actual return on plan assets	**3,146**	3,580	**0**	0
Employer contribution	**0**	0	**105**	189
Benefits paid	**(468)**	(409)	**(105)**	(189)
Fair value of plan assets at December 31	**$23,376**	$20,698	**$ 0**	$ 0

Funded Status Reconciliation and Key Assumptions

(Dollars in thousands)	Pension Benefits 1999	Pension Benefits 1998	Postretirement Benefits 1999	Postretirement Benefits 1998
Reconciliation of funded status				
Funded Status	**$ 7,785**	$ 5,952	**$(1,132)**	$(1,327)
Unrecognized net actuarial (gain) loss	**(9,117)**	(6,476)	**247**	452
Unrecognized prior service cost	**1,127**	324	**0**	0
Unrecognized transition obligation (asset)	**0**	0	**337**	363
Prepaid (accrued) benefit cost	**$ (205)**	$ (200)	**$ (548)**	$ (512)
Amounts recognized in financial statements consists of:				
Prepaid benefit cost/(Accrued benefit liability)	**$ (205)**	$ (200)	**$ (548)**	$ (512)
Intangible asset	**9**	0	**0**	0
Net amount recognized	**$ (214)**	$ (200)	**$ (548)**	$ (512)

The Bank's Supplemental Employee Retirement Plan (the "SERP") was the only pension plan with an accumulated benefit obligation in excess of plan assets. The SERP's accumulated benefit obligation was $1,383,952 as of December 31, 1999 and $897,197 as of December 31, 1998. There are no plan assets in the SERP due to the nature of the SERP. The Corporation's plan for postretirement benefits other than pensions also has no plan assets. The aggregate benefit obligation for that plan was $1,132,282 as of December 31, 1999 and $1,326,728 as of December 31, 1998.

The assumptions used in the measurement of the Corporation's benefit obligation are shown on the following table:

Weighted-average assumptions as of end of year	Pension Benefits 1999	Pension Benefits 1998	Postretirement Benefits 1999	Postretirement Benefits 1998
Discount rate	8.00%	6.75%	8.00%	6.75%
Expected return on plan assets	8.50%	8.25%	N/A	N/A
Rate of compensation increase	5.00%	5.00%	N/A	N/A

The assumed health care cost trend rate for 1999 and thereafter is 6%.

The following table provides the components of net periodic cost (income) for the plans for years ended December 31, 1999, 1998 and 1997:

	Pension Benefits			Postretirement Benefits		
	1999	1998	1997	**1999**	1998	1997
Service cost	**$ 927**	$ 701	$ 555	**$ 7**	$ 9	$ 11
Interest cost	**1,078**	900	790	**83**	141	165
Expected return on plan assets	**(1,739)**	(1,428)	(1,144)	**0**	0	0
Amortization of prior service cost	**158**	52	38	**0**	0	0
Amortization of transition obligation (asset)	**0**	0	0	**25**	78	122
Amortization of net actuarial (gain) loss	**(418)**	(375)	(266)	**25**	17	0
Net periodic benefit cost	**$ 6**	$ (150)	(27)	**$140**	$245	$298

Sensitivity Analysis, Postretirement Benefits

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	$ 5,902	$ (5,403)
Effect on accumulated postretirement benefit obligation	73,598	(67,937)

12. Stock Option Plan:

The Corporation maintains a stock option and stock appreciation rights plan (the "Stock Option Plan"), which is described below. The Corporation applies APB Opinion 25 and related interpretations in accounting for the Stock Option Plan. Accordingly, no compensation cost has been recognized for the Stock Option Plan. Had compensation for the Corporation's Stock Option Plan been determined based on the fair value at the grant date for awards in 1999, 1998 and 1997, consistent with the optional provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation", the Corporation's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	1999	1998	1997
Net income - as reported	**$7,961**	$6,857	$6,130
Net Income pro forma	**7,636**	6,373	6,003
Basic earnings per share - as reported	**$ 1.83**	$ 1.58	$ 1.40
Basic earnings per share - pro forma	**$ 1.76**	$ 1.47	$ 1.37

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1997, 1998 and 1999: dividend yield of 2.50 percent, expected volatility of 21.7 percent, expected life of seven years and risk-free interest rates of 7.1, 6.5 and 6.7 percent, respectively.

The Plan had, prior to 1994, up to 216,000 authorized and unissued or treasury shares of the Corporation's common stock reserved for issuance under the Plan. During 1994, the shareholders' approved an additional 217,720 shares for issuance under the Plan. The option to purchase shares of the Corporation's common stock was issued to key officers. During 1995, the shareholders approved the issuance of 80,000 shares, 20,000 to be granted to outside directors, for 4 years after each Annual Meeting. The option price was set at the last sale price for the stock on the third business day following the Corporation's Annual Meeting. Options totaling 76,000 shares of Corporation stock were issued under the outside directors' plan. During 1998, the shareholders approved the issuance of up to 217,606 shares available for issuance to both employees and directors. The price will be determined by the Corporation's Compensation Committee of the Board of Directors at the time the option is granted.

Options granted may either be "incentive stock options" within the meaning of the Internal Revenue Service code, or non-qualified options. The stock options are exercisable over a period determined by the Board of Directors; however, the option period will not commence earlier than one year or be longer than ten years from the date of the grant. The Plan provides that the option price at the date of grant will not be less than the fair market value of the Corporation's common stock. The following is a summary of transactions under the Plan:

	Shares Under Option	Available for Option	Price per Share	Weighted Average Exercise Price
Balance at December 31, 1996	357,600	44,520	$4.50 - $12.50	$ 7.83
Options granted	18,000	(18,000)	$ 16.60	$16.60
Options exercised	(35,000)	—	$7.00 - $12.50	$ 7.43
Balance at December 31, 1997	340,600	26,520	$4.50 - $16.94	$ 8.26
Options authorized	—	217,606	—	—
Options granted	97,400	(97,400)	$ 24.50	$24.50
Options exercised	(31,920)	—	$6.75 - $24.50	$10.28
Balance at December 31, 1998	406,080	146,726	$4.50 - $24.50	$12.06
Options granted	73,400	(73,400)	$ 26.44	$26.44
Options exercised	(40,200)	—	—	—
Options cancelled	(10,000)	10,000	—	—
Balance at December 31, 1999	429,280	83,326	$4.50 - $26.44	$14.08

Information pertaining to options outstanding at December 31, 1999 is as follows:

Price range of shares under option at December 31, 1999:

	Shares Under Option	Price per Share	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
	147,640	$ 4.50 - $ 7.94	2.38	$ 7.17	147,640	$ 7.17
	114,440	$ 8.00 - $12.50	3.35	$ 8.83	114,440	$ 8.83
	100,200	$16.91 - $24.50	8.17	$23.29	100,200	$23.29
	67,000	$ 26.44	9.33	$24.50	—	—
Balance at December 31, 1999	429,280	$ 4.50 - $26.44	5.08	$14.08		

The weighted-average fair value of options granted during 1997, 1998 and 1999 were $13.99, $7.39 and $6.71, respectively.

The number of exercisable shares at December 31, 1997, 1998 and 1999 were 279,960, 388,480 and, 362,280, respectively, with respective weighted average exercise prices of $8.39, $12.25 and $12.15.

Stock appreciation rights may be granted in tandem with non-qualified stock options. No stock appreciation rights have been granted under the Plan. The options had a $.07 per share, $.11 per share and $.03 per share dilutive effect on earnings per share for the years ended December 31, 1999, 1998 and 1997, respectively.

13. Related Party Transactions:

The Corporation had loans outstanding directly to executive officers, directors and certain other related parties of $3,937,000 and $3,836,000 at December 31, 1999 and 1998, respectively.

Following is a summary of these transactions:

(in thousands)	1999	1998
Balance, beginning of year	**$3,836**	$3,506
Additions	**627**	1,173
Amounts collected	**(526)**	(843)
Balance, end of year	**$3,937**	$3,836

Related party deposits amounted to $765,000 and $823,000 at December 31, 1999 and 1998, respectively.

14. Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk:

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated statements of financial condition. The contractual amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument of commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Some of the commitments are expected to expire without being drawn upon, and the total commitment amounts do not necessarily represent future cash requirements. Total commitments to extend credit at December 31, 1999 are $113,682,000. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral varies but may include accounts receivable, marketable securities, inventory, property, plant and equipment, residential real estate, and income-producing commercial properties.

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 extending loan facilities to customers. The collateral varies, but may include accounts receivable, marketable securities, inventory, property, plant and equipment, and residential real estate for those commitments for which collateral is deemed necessary. The Corporation's obligation under standby letters of credit as of December 31, 1999 amounted to $7,882,000. There were no outstanding bankers acceptances as of December 31, 1999.

As of December 31, 1999, the Corporation had no loans sold with recourse outstanding.

The Corporation grants construction, commercial, residential mortgage, and consumer loans to customers primarily in Southeastern Pennsylvania. Although the Corporation has a diversified loan portfolio, its debtors' ability to honor their contracts is substantially dependent upon the general economic conditions of the region.

15. Risks and Uncertainties:

The earnings of the Corporation depend on the earnings of the Bank. The Bank's earnings are dependent upon both the level of net interest income and non-interest revenue streams, primarily fees for trust services, that are earned annually. Accordingly, the earnings of the Corporation are subject to risks and uncertainties surrounding both its exposure to changes in the interest rate environment and movements in financial markets.

Most of the Bank's lending activity is with customers located in southeastern Pennsylvania. Lending is spread between commercial, consumer and real estate related loans, including construction lending. While these loan concentrations represent a potential concentration of credit risk, the Bank's credit loss experience compares favorably to the Bank's peer group credit loss experience.

The financial statements of the Corporation are prepared in conformity with generally accepted accounting principles that require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Significant estimates are made by management in determining the allowance for possible loan losses and the carrying value of other real estate owned. Consideration is given to a variety of factors in establishing these estimates, including current economic conditions, the results of the internal loan review process, delinquency statistics, borrowers perceived financial and managerial strengths, and the adequacy of supporting collateral, if collateral dependent, or the present value of future cash flows. Since the allowance for possible loan losses and the carrying value of other real estate owned are dependent, to a great extent, on general and other economic conditions beyond the Bank's control, it is at least reasonably possible that the estimates of the allowance for possible loan losses and the carrying value of other real estate owned could differ materially from currently reported values in the near term.

16. Acquisitions:

The following acquisitions were accounted for under the purchase method of accounting during 1999. Goodwill arising from these transactions has been recorded on the balance sheet and is being amortized on a straight line basis over a 10 to 20 year life. These acquisitions resulted in both the issuance of common stock (non-cash investing) as well as the payment of cash. Following is a description of each transaction.

Name of Company Acquired:	Method of Accounting	Date of Acquisition	Total Purchase Price	Cash	Shares of Common Stock	Number of Shares Issued or Issuable	Goodwill	Amortization Period	Amortized in 1999
CDC Capital Management, (Shares to be issued in payment for the acquisition are to be issued over a two year time period.)	Purchase	1/06/99	$ 281,000	$ —	281,000	10,375	$ 177,000	10 Years	$ 18,000
Joseph W. Roskos & Co.	Purchase	1/01/99	$4,195,000	$2,195,000	2,000,000	74,697	$3,300,000	20 Years	$165,000

Both companies were acquired to enhance the number of financial products and services already offered by the Corporation. CDC Capital Management is an investment advisory management firm, allowing the Corporation to better diversify its clients' investments. Joseph W. Roskos & Co. is a firm with family business office services, including accounting, consulting, tax services and fiduciary support to high-net-worth individuals and families.

17. Minimum Regulatory Capital Requirements:

Both the Corporation and the Bank are subject to various regulatory capital requirements, administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if taken, could have a direct material effect on the Corporations and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgements by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

As set forth in the following table, quantitative measures have been established to ensure capital adequacy ratios required of both the Corporation and Bank, specifically to define the minimum respective capital ratios as follows: total capital to total assets (the leverage ratio) of 4%; Tier I capital to risk weighted assets of 4% and Tier II capital to risk weighted assets of 8%. Both the Corporation's and the Bank's Tier II capital ratios are calculated by adding back a portion of the loan loss reserve to the Tier I capital. Management believes, as of December 31, 1999 and 1998 that the Corporation and the Bank have met all capital adequacy requirements to which they are subject. Federal banking regulators have defined specific capital categories, based on an institution's capital ratios. The categories range for a best of "well capitalized" to a worst of "critically under capitalized." To be considered "well capitalized", an institution must have a total (Tier II) capital ratio of 10% or better. Both the Corporation and the Bank have been classified as "well capitalized" for both periods ending December 31, 1999 and 1998.

The Corporation's and the Bank's actual capital amounts and ratios as of December 31, 1999 and 1998 are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized
	Amount	Ratio	Amount	Ratio	Amount
December 31, 1999					
Total (Tier II) Capital to Risk Weighted Assets:					
Consolidated	**$48,214**	**12.19%**		**8.0%**	**N/A**
The Bank	**42,277**	**11.54%**	**$29,298**	**8.0%**	**$36,623**
Tier I Capital to Risk Weighted Assets:					
Consolidated	**43,814**	**11.08%**		**4.0%**	**N/A**
The Bank	**37,877**	**10.34%**	**14,649**	**4.0%**	**21,974**
Total Capital to Total Assets (Leverage Ratio):					
Consolidated	**46,719**	**10.70%**		**4.0%**	**N/A**
The Bank	**37,487**	**8.76%**	**17,126**	**4.0%**	**21,408**
December 31, 1998					
Total (Tier II) Capital to Risk Weighted Assets:					
Consolidated	46,010	14.80%		8.0%	N/A
The Bank	41,929	13.68%	24,877	8.0%	30,661
Tier I Capital to Risk Weighted Assets:					
Consolidated	42,121	13.55%		4.0%	N/A
The Bank	38,093	13.68%	12,439	4.0%	18,396
Total Capital to Total Assets (Leverage Ratio):					
Consolidated	42,221	9.86%		4.0%	N/A
The Bank	38,193	10.78%	15,502	4.0%	15,202

18. Selected Quarterly Financial Data (Unaudited):

(In thousands, except per share data)	Quarters ending 1999			
	3/31	6/30	9/30	12/31
Interest income	**$6,632**	**$7,197**	**$7,046**	**$7,442**
Interest expense	**1,344**	**1,336**	**1,467**	**1,710**
Net interest income	**5,288**	**5,861**	**5,579**	**5,732**
Provision for loan losses	**63**	**62**	**62**	**63**
Income before income taxes	**2,842**	**2,892**	**2,952**	**3,154**
Net income	**1,842**	**2,002**	**2,026**	**2,091**
Earnings per common share	**$ 0.42**	**$ 0.46**	**$ 0.47**	**$ 0.48**
Earnings per common share - assuming dilution	**$ 0.40**	**$ 0.44**	**$ 0.45**	**$ 0.46**

(In thousands, except per share data)	Quarters ending 1998*			
	3/31	6/30	9/30	12/31
Interest income	$6,400	$6,494	$6,569	$6,619
Interest expense	1,528	1,514	1,507	1,427
Net interest income	4,872	4,980	5,062	5,192
Provision for loan losses	25	25	37	63
Income before income taxes	2,616	2,498	2,657	2,566
Net income	1,746	1,628	1,732	1,751
Earnings per common share	0.40	0.38	0.40	0.41
Earnings per common share - assuming dilution	0.38	0.36	0.38	0.39

**Reclassified for comparative purposes.*

19. Condensed Financial Statements:

The condensed financial statements of the Corporation (parent company only) as of December 31, 1999 and 1998, and for each of the three years in the period ended December 31, 1999, are as follows:

Condensed Balance Sheets

(in thousands)	1999	1998
Assets:		
Cash	**$ 701**	$ 221
Investments in subsidiaries, at equity in net assets	**39,381**	38,710
Premises and equipment, net	**3,958**	4,056
Goodwill	**3,294**	—
Other assets	**65**	72
Total assets	**$47,399**	$43,059
Liabilities and shareholders' equity:		
Mortgages payable	**$ 638**	$ 668
Other liabilities	**42**	170
Total liabilities	**680**	838
Common stock, par value $1, authorized 25,000,000 shares as of December 31, 1999 and 1998, respectively, issued 5,179,608 shares and 5,067,078 shares as of December 31, 1999 and 1998, respectively, and outstandng 4,323,250 shares and 4,303,818 shares as of December 31, 1999 and 1998, respectively	**5,180**	5,067
Paid-in capital in excess of par value	**4,467**	2,478
Unrealized investment (depreciation), appreciation net of deferred income taxes	**(389)**	100
Retained earnings	**45,149**	39,791
Less common stock in treasury, at cost - 856,358 shares and 763,260 shares as of December 31, 1999 and 1998	**(7,688)**	(5,215)
Total shareholders' equity	**46,719**	42,221
Total liabilities and shareholders' equity	**$47,399**	$43,059

Condensed Statements of Income

(in thousands)	1999	1998	1997
Dividends from the Bryn Mawr Trust Company	**$8,052**	$4,012	$5,359
Interest and other income	**241**	236	237
Total operating income	**8,293**	4,248	5,596
Expenses	**730**	677	360
Income before equity in undistributed income of subsidiaries	**7,563**	3,571	5,236
Equity in undistributed income of subsidiaries	**294**	3,136	852
Income before income taxes	**7,857**	6,707	6,088
Federal income tax benefit	**104**	150	42
Net income	**$7,961**	$6,857	$6,130

Condensed Statements of Cash Flows

(in thousands)	1999	1998	1997
Operating activities:			
Net income	**$7,961**	$6,857	$6,130
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed losses of subsidiaries	**(294)**	(3,134)	(852)
Depreciation expense	**98**	99	98
Amortization of goodwill	**183**	—	—
Other	**629**	(3)	(1)
Net cash provided by operating activities	**8,577**	3,819	5,375
Investing Activities:			
Cost of acquiring subsidiaries	**(2,195)**	—	—
Investment in Subsidiaries	**(1,041)**	(440)	(75)
Net cash used by investing activities	**(3,236)**	(440)	(75)
Financing activities:			
Dividends paid	**(2,603)**	(2,012)	(1,583)
Repayment of mortgage debt	**(30)**	(26)	(1,809)
Repurchase of treasury stock	**(2,531)**	(2,519)	(1,329)
Proceeds from issuance of stock	**303**	432	260
Net cash used by financing activities	**(4,861)**	(4,125)	(4,461)
Change in cash and cash equivalents	**480**	(746)	839
Cash and cash equivalents at beginning of year	**221**	967	128
Cash and cash equivalents at end of year	**$ 701**	$ 221	$ 967

These statements should be read in conjunction with the other notes related to the consolidated financial statements.

As a bank and trust company subject to the Pennsylvania Banking Code ("the Banking Code") of 1965 as amended, the Bank is subject to legal limitations as to the amount of dividends that can be paid to its shareholder, the Corporation. The Banking Code restricts the payment of dividends by the Bank to the amount of its retained earnings. As of December 31, 1999, the Bank's retained earnings amounted to $31,286,000. Therefore, as of December 31, 1999, dividends available for payment to the Corporation are limited to $31,286,000. Since the primary source of dividend funding for the Corporation's dividend payments to its shareholders is the Bank's dividends, the Corporation is effectively limited as to the amount of dividends that it may pay to an amount to the limits placed on the Bank, as discussed above.

20. Segment Information:

The Corporation's principal operating segments are structured around the financial services provided its customers. The banking segment gathers deposits and makes funds available for loans to its customers. The Bank's Investment Management and Trust segment provides both corporate and individual investment management and trust products and services. The Bank's mortgage banking segment originates and sells residential mortgage loans to the secondary mortgage market.

Segment information for the years ended December 31, 1999, 1998, and 1997 is as follows:

1999 *(in thousands)*	Banking	Trust	Mortgage Banking	All Other	Consolidated
Net interest income	$ 22,310	$ —	$ 145	$ 5	$ 22,460
Less loan loss provision	250	—	—	—	250
Net interest income after loan loss provision	22,060	—	145	5	22,210
Other income:					
Fees for investment management and trust services	—	9,784	—	—	9,784
Service charges on deposit accounts	1,156	—	—	—	1,156
Other fees and service charges	571	—	762	—	1,333
Net gain on sale of loans	44	—	984	—	1,028
Gain on sale of other real estate owned	45	—	—	—	45
Other operating income	1,115	—	—	4568	5,683
Total other income	2,931	9,784	1,746	4,568	19,029
Other expenses:					
Salaries-regular	7,251	2,852	469	1,874	12,446
Salaries-other	1,754	230	78	184	2,246
Fringe benefits	1,474	565	80	215	2,334
Occupancy	3,090	476	149	456	4,171
Other operating expenses	5,218	948	310	1,726	8,202
Total other expenses	18,787	5,071	1,086	4,455	29,399
Segment profit (loss)	6,204	4,713	805	118	11,840
Intersegment (revenues) expenses	176	181	—	(357)	—
Segment profit after eliminations	$ 6,380	$4,894	$ 805	($ 239)	$ 11,840
% of segment profit (loss)	52%	40%	7%	1%	100%
Total assets at December 31	$398,546	$ 413	$27,337	$10,524	$436,820
Capital expenditures	$ 759	$ 95	$ 14	$ 236	$ 1,104
Depreciation and amortization	$ 693	$ 162	$ 29	$ 435	$ 1,319

1998* *(in thousands)*	Banking	Trust	Mortgage Banking	All Other	Consolidated
Net interest income	$ 20,052	$ —	$ 51	$ 3	$ 20,106
Less loan loss provision	150	—	—	—	150
Net interest income after loan loss provision	19,902	—	51	3	19,956
Other income:					
Fees for investment management and trust services	—	9,272	—	—	9,272
Service charges on deposit accounts	1,169	—	—	—	1,169
Other fees and service charges	571	—	701	—	1,272
Net gain on sale of loans	35	—	1,647	—	1,682
Gain on sale of other real estate owned	224	—	—	—	224
Other operating income	631	—	—	1079	1,710
Total other income	2,630	9,272	2,348	1,079	15,329
Other expenses:					
Salaries-regular	6,489	2,863	417	520	10,289
Salaries-other	1,692	386	117	180	2,375
Fringe benefits	1,232	549	74	53	1,908
Occupancy	2,793	422	62	180	3,457
Other operating expenses	5,003	898	400	618	6,919
Total other expenses	17,209	5,118	1,070	1,551	24,948
Segment profit (loss)	5,323	4,154	1,329	(469)	10,337
Intersegment (revenues) expenses	38	181	—	(219)	—
Segment profit after eliminations	$ 5,361	$4,335	$ 1,329	($ 688)	$ 10,337
% of segment profit (loss)	51%	40%	13%	(4%)	100%
Total assets at December 31	$369,556	$ 455	$16,532	$ 5,297	$391,840
Capital expenditures	$ 2,108	$ 370	$ 93	$ 30	$ 2,601
Depreciation and amortization	$ 1,146	$ 139	$ 16	$ 106	$ 1,407

1997* *(in thousands)*	Banking	Trust	Mortgage Banking	All Other	Consolidated
Net interest income	$ 18,368	$ —	$ —	$ —	$ 18,368
Less loan loss provision	200	—	—	—	200
Net interest income after loan loss provision	18,168	—	—	—	18,168
Other income:					
Fees for investment management and trust services	—	7,698	—	—	7,698
Service charges on deposit accounts	1,124	—	—	—	1,124
Other fees and service charges	791	—	587	—	1,378
Net gain on sale of loans	(582)	—	1,091	—	509
Gain on sale of other real estate owned	379	—	—	—	379
Other operating income	528	—	4	370	902
Total other income	2,240	7,698	1,682	370	11,990
Other expenses:					
Salaries-regular	5,858	2,415	235	96	8,604
Salaries-other	1,347	215	93	—	1,655
Fringe benefits	1,237	501	45	8	1,791
Occupancy	2,543	361	39	223	3,166
Other operating expenses	4,730	733	233	166	5,862
Total other expenses	15,715	4,225	645	493	21,078
Segment profit (loss)	4,693	3,473	1,037	(123)	9,080
Intersegment (revenues) expenses	50	181	—	(231)	—
Segment profit after eliminations	$ 4,743	$3,654	$ 1,037	($ 354)	$ 9,080
% of segment profit (loss)	52%	38%	11%	(1%)	100%
Total assets at December 31	$368,839	$ 158	$ —	$ 5,213	$374,210
Capital expenditures	$ 1,462	$ 80	$ —	$ —	$ 1,542
Depreciation and amortization	$ 885	$ 105	$ 3	$ 98	$ 1,091

Bryn Mawr Bank Corporation, Tax Counsellors of Bryn Mawr, Inc., Insurance Counsellors of Bryn Mawr, Inc., Bryn Mawr Brokerage Company, Inc., CDC Capital Management, Inc. and Joseph W. Roskos & Company have all been aggregated in All Others.

**-Reclassified for comparative purposes.*

Report of Independent Accountants

To the Board of Directors and Shareholders of Bryn Mawr Bank Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Bryn Mawr Bank Corporation and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
January 20, 2000