

BRYN MAWR BANK CORP
Form 10-Q
May 10, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For Quarter ended March 31, 2006

Commission File Number 0-15261

Bryn Mawr Bank Corporation

(Exact name of registrant as specified in its charter)

| | |
|--|--|
| Pennsylvania (State or other jurisdiction of incorporation or organization) | 23-2434506 (I.R.S. Employer identification No.) |
| 801 Lancaster Avenue, Bryn Mawr, Pennsylvania (Address of principal executive offices) | 19010 (Zip Code) |
| Registrant's telephone number, including area code (610) 525-1700 | |

Not Applicable

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

| Class | Outstanding at May 3, 2006 |
|-----------------------------|----------------------------|
| Common Stock, par value \$1 | 8,580,517 |

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

FORM 10-Q

QUARTER ENDED March 31, 2006

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| | Three Months Ended | |
|--|--------------------|----------|
| (dollars in thousands, except per share data) | March 31 | |
| | 2006 | 2005 |
| Net interest income: | | |
| Interest income: | | |
| Interest and fees on loans | \$ 9,927 | \$ 8,354 |
| Interest on federal funds sold | 66 | 25 |
| Interest on interest bearing deposits with banks | 5 | 18 |
| Interest and dividends on investment securities | 360 | 274 |
| Total interest and dividend income | 10,358 | 8,671 |
| Interest expense: | | |
| Savings, NOW, and market rate accounts | 821 | 562 |
| Time deposits | 1,301 | 732 |
| Borrowings | 42 | 9 |
| Total interest expense | 2,164 | 1,303 |
| Net interest income | 8,194 | 7,368 |
| Loan loss provision | 154 | 187 |
| Net interest income after loan loss provision | 8,040 | 7,181 |
| Non-interest income: | | |
| Fees for wealth management services | 3,120 | 2,654 |
| Service charges on deposits | 379 | 395 |
| Loan servicing and late fees | 290 | 339 |
| Net gain on sale of loans | 250 | 458 |
| Other operating income | 547 | 568 |
| Total non-interest income | 4,586 | 4,414 |
| Non-interest expenses: | | |
| Salaries and wages | 3,829 | 3,507 |
| Employee benefits | 1,318 | 1,141 |
| Occupancy | 624 | 556 |
| Furniture, fixtures, and equipment | 482 | 460 |
| Advertising | 200 | 176 |
| Amortization of mortgage servicing rights | 86 | 189 |
| Professional fees | 297 | 303 |
| Other operating expenses | 1,009 | 1,052 |

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| | | |
|---|-----------|-----------|
| Total non-interest expenses | 7,845 | 7,384 |
| Income before income taxes | 4,781 | 4,211 |
| Income taxes | 1,645 | 1,409 |
| Net income | \$ 3,136 | \$ 2,802 |
| Total Basic earnings per share | \$ 0.37 | \$ 0.33 |
| Total Diluted earnings per share | \$ 0.36 | \$ 0.32 |
| Dividends declared per share | \$ 0.11 | \$ 0.10 |
| Weighted-average basic shares outstanding | 8,570,675 | 8,591,622 |
| Dilutive potential shares | 137,135 | 105,718 |
| Adjusted weighted-average shares | 8,707,810 | 8,697,340 |

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

Table of Contents**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****Unaudited**

| | March 31, | December 31, |
|---|-------------------|-------------------|
| (dollars in thousands, except per share data) | 2006 | 2005 |
| Assets | | |
| Cash and due from banks | \$ 26,132 | \$ 33,896 |
| Interest bearing deposits with banks | 508 | 405 |
| Federal funds sold | | 32,341 |
| Investment securities available for sale, at fair value (amortized cost of \$44,277 and \$35,608 as of March 31, 2006 and December 31, 2005, respectively) | 43,428 | 34,991 |
| Loans held for sale | 4,061 | 2,765 |
| Portfolio loans | 606,578 | 595,165 |
| Less: Allowance for loan losses | (7,571) | (7,402) |
| Net portfolio loans | 599,007 | 587,763 |
| Premises and equipment, net | 14,649 | 14,622 |
| Accrued interest receivable | 3,300 | 3,265 |
| Deferred income taxes | 1,370 | 709 |
| Mortgage servicing rights | 2,980 | 2,982 |
| Other assets | 14,498 | 13,487 |
| Total assets | \$ 709,933 | \$ 727,226 |
| Liabilities | | |
| Deposits: | | |
| Noninterest-bearing demand | \$ 151,324 | \$ 168,042 |
| Savings, NOW and market rate accounts | 303,356 | 312,896 |
| Time deposits | 153,412 | 155,322 |
| Total deposits | 608,092 | 636,260 |
| Borrowed funds | 8,000 | |
| Accrued interest payable | 2,428 | 2,143 |
| Other liabilities | 11,743 | 11,310 |
| Total liabilities | 630,263 | 649,713 |
| Shareholders equity | | |
| Common stock, par value \$1; authorized 25,000,000 shares; issued 11,282,199 and 11,221,899 shares as of March 31, 2006 and December 31, 2005 respectively and outstanding of 8,575,555 and 8,556,255 shares as of March 31, 2006 and December 31, 2005, respectively | 11,282 | 11,222 |
| Paid-in capital in excess of par value | 8,832 | 7,888 |
| Accumulated other comprehensive income, net of taxes | (793) | (643) |
| Retained earnings | 85,122 | 82,930 |
| | 104,443 | 101,397 |
| | (24,773) | (23,884) |

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Less: Common stock in treasury at cost 2,706,644, and 2,665,644 shares as of March 31, 2006 and December 31, 2006 respectively

| | | |
|--|------------|------------|
| Total shareholders' equity | 79,670 | 77,513 |
| Total liabilities and shareholders' equity | \$ 709,933 | \$ 727,226 |
| Book value per share | \$ 9.29 | \$ 9.06 |

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

Table of Contents**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****Unaudited**

| (dollars in thousands) | Three Months Ended March 31 | |
|---|--------------------------------|-----------|
| | 2006 | 2005 |
| Operating activities: | | |
| Net income from operations | \$ 3,136 | \$ 2,802 |
| Adjustments to reconcile net income from continuing operations to net cash (used) provided by operating activities: | | |
| Provision for loan losses | 154 | 187 |
| Provision for depreciation and amortization | 367 | 356 |
| Loans originated for resale | (15,597) | (38,354) |
| Proceeds from loans sold | 14,551 | 34,308 |
| Gain on sale of loans | (250) | (458) |
| Provision for deferred income taxes (benefit) | (580) | (303) |
| Change in tax receivable | | 1,215 |
| Change in accrued interest receivable | (35) | (305) |
| Change in accrued interest payable | 285 | (1,404) |
| Change in mortgage servicing rights, net | 2 | 58 |
| Other | (659) | 33 |
| Net cash provided (used) by operating activities | 1,374 | (1,865) |
| Investing activities: | | |
| Purchases of investment securities available for sale | (8,810) | (1,250) |
| Proceeds from maturity of investment securities | | |
| Proceeds from sale of investment securities available for sale | | 279 |
| Proceeds from calls of investment securities | 200 | 1,000 |
| Net portfolio loan (originations) repayments | (11,398) | 6,292 |
| Purchases of premises and equipment | (371) | (608) |
| Acquisition of OREO | | (234) |
| Net cash (used) provided by investing activities | (20,379) | 5,479 |
| Financing activities: | | |
| Net (decrease) increase in demand and savings deposits | (26,256) | (38,746) |
| Net (decrease) increase in time deposits | (1,911) | 20,965 |
| Dividends paid | (944) | (860) |
| Purchases of treasury stock | (889) | (1,269) |
| Retirement of treasury stock | | |
| Change in borrowed funds | 8,000 | |
| Proceeds from issuance of common stock | 1,003 | 229 |
| Net cash used by financing activities | (20,997) | (19,681) |
| (Decrease) increase in cash and cash equivalents | (40,002) | (16,067) |
| Cash and cash equivalents at beginning of period | 66,642 | 55,242 |
| Cash and cash equivalents at end of period | \$ 26,640 | \$ 39,175 |

Supplemental cash flow information:

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| | | |
|-------------------|----------|----------|
| Income taxes paid | \$ 20 | \$ 24 |
| Interest paid | \$ 1,879 | \$ 2,707 |

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

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BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

| (dollars in thousands) | Three Months Ended | |
|--|---------------------------|-----------------|
| | March 31, | |
| | 2006 | 2005 |
| Net income | \$ 3,136 | \$ 2,802 |
| Other comprehensive income: | | |
| Unrealized holding gain (loss) on available-for-sale securities | (232) | (353) |
| Deferred income tax (expense) benefit on unrealized holding gain (loss) on available for sale securities | 81 | 124 |
| Total comprehensive income | \$ 2,985 | \$ 2,573 |

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

Table of Contents**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2006 and 2005****(Unaudited)****1. Basis of Presentation:**

The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. In the opinion of Bryn Mawr Bank Corporation's (the Corporation) Management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and the results of operations for the interim period presented have been included. **These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Corporation's 2005 Annual Report on Form 10-K.** The Corporation's consolidated financial condition and results of operations consist almost entirely of The Bryn Mawr Trust Company's (the Bank) financial condition and results of operations.

The results of operations for the three month period ended March 31, 2006 are not necessarily indicative of the results to be expected for the full year.

2. Earnings Per Common Share:

The Corporation follows the provisions of SFAS No. 128, Earnings Per Share. Basic earnings per common share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted earnings per common share takes into account the potential dilution, computed pursuant to the treasury stock method, that could occur if stock options were exercised and converted into common stock. The effects of stock options are excluded from the computation of diluted earnings per share in periods in which the effect would be antidilutive. As of March 31, 2005 and 2006 the antidilutive shares were 3,250 for both periods. All weighted average shares, actual shares and per share information in the financial statements have been adjusted retroactively for the effect of stock dividends and splits.

| (dollars in thousands, except per share data) | Three Months Ended | |
|--|--------------------|-----------|
| | March 31, | |
| | 2006 | 2005 |
| Numerator: | | |
| Net income available to common shareholders | \$ 3,136 | \$ 2,802 |
| Denominator for basic earnings per share - weighted average shares | | |
| outstanding | 8,570,675 | 8,591,622 |
| Effect of dilutive potential common shares | 137,135 | 105,718 |
| Denominator for diluted earnings per share - adjusted weighted average shares | | |
| outstanding | 8,707,810 | 8,697,340 |
| Basic earnings per share | \$.37 | \$.33 |
| Diluted earnings per share | \$.36 | \$.32 |

3. Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged as an expense. Loans are charged against the allowance for loan losses when Management believes that the collectability of principal is unlikely. The allowance for loan losses is maintained at a level that Management believes is sufficient to absorb estimated probable credit losses. Note 1, Summary of Significant Accounting Policies Allowance for Loan Losses, included in the Corporation's 2005 Annual Report on Form 10K contains additional information relative to Management's determination of the adequacy of the allowance for loan losses.

4. Stock Based Compensation

The Corporation adopted SFAS No. 123R Share-Based Payments effective January 1, 2006. SFAS 123R establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock based compensation cost is

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measured at the grant date, based on the fair value of the award and is recognized as an expense over the vesting period. The Corporation previously applied Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations and provided the required pro forma disclosures of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123).

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

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

The Corporation recorded stock-based compensation expense for the three months ended March 31, 2006 as follows:

| | Three Months Ended | | |
|---|--------------------|----------------|-----------------|
| | March 31, 2006 | | |
| | Using Previous | SFAS 123R | As Reported |
| (dollars in thousands, except per share data) | Accounting | Effects | As Reported |
| Income before taxes | \$ 4,820 | \$ (39) | \$ 4,781 |
| Income taxes | (1,658) | 13 | (1,645) |
| Net Income | \$ 3,162 | \$ (26) | \$ 3,136 |
| Basic Earnings per share | 0.37 | 0.00 | 0.37 |
| Diluted earnings per share | 0.36 | 0.00 | 0.36 |

The proforma net income that would have resulted if the Corporation applied the fair value method of accounting for stock based compensation under SFAS No. 123 for the three months ended March 31, 2005 is as follows:

| | Three Months Ended | | |
|----------------------------|--------------------|----------------------|-------------------|
| | March 31, 2005 | | |
| | As Reported | Pro Forma Adjustment | If under SFAS 123 |
| Income before taxes | \$ 4,211 | \$ (138) | \$ 4,073 |
| Income taxes | (1,409) | 46 | (1,363) |
| Net Income | \$ 2,802 | \$ (92) | \$ 2,710 |
| Basic Earnings per share | 0.33 | (0.01) | 0.32 |
| Diluted earnings per share | 0.32 | (0.01) | 0.31 |

The Corporation's Stock Option Plan (SOP) permits the issuance of options to key employees and Directors to purchase shares of the Corporation's common stock. A total of 431,143 shares were authorized in 2004 by the Board of Directors. As of March 31, 2006 there are 21,064 shares available for future grant. The option price is set at the closing price for the stock on the day preceeding issuance of grants as determined by the Corporation's Board of Directors. 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,

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the option period will not be longer than ten years from the date of the grant. The vesting period of option grants issued is also determined by the Corporation's Board of Directors. During 2005 all grants were issued with immediate vesting. Also, during 2005 the vesting period on 83,916 out of money options outstanding was accelerated to avoid stock based compensation expense in future years. The historical vesting period for options issued had been three years. The SOP provides that the option price at the date of the grant will not be less than the fair market value of the Corporation's common stock. The Corporation's practice is to issue option related shares from authorized but unissued.

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The following table provides information about options outstanding for the three-months ended March 31, 2006:

| | Shares | Weighted Average Exercise Price | Weighted Average Grant Date Fair Value |
|---------------------------------------|---------|---------------------------------------|--|
| Options outstanding December 31, 2005 | 934,308 | \$ 17.44 | \$ 3.74 |
| Granted | | | |
| Forfeited | | | |
| Expired | | | |
| Exercised | 60,300 | \$ 14.02 | \$ 2.91 |
| Options outstanding March 31, 2006 | 874,008 | \$ 17.68 | \$ 3.80 |

The following table provides information about unvested options for the three-months ended March 31, 2006:

| | Shares | Weighted Average Grant Date Fair Value |
|------------------------------------|--------|--|
| Unvested options December 31, 2005 | 33,334 | \$ 18.04 |
| Granted | | |
| Vested | 333 | \$ 17.85 |
| Forfeited | | |
| Unvested options March 31, 2006 | 33,001 | \$ 18.05 |

The total compensation cost on unvested stock options is \$15,600. This expense will be recognized over a weighted average period of 2 months.

Proceeds, related tax benefits realized from options exercised and intrinsic value of options exercised during the quarters ended March 31, 2006 and 2005 were as follows:

| | 2006 | 2005 |
|--|--------------|------------|
| Proceeds from strike price of value of options exercised | \$ 845,406 | \$ 149,275 |
| Related tax benefit recognized | 158,191 | 78,371 |
| Proceeds of options exercised | \$ 1,003,597 | \$ 227,646 |

The intrinsic value of the options exercised during the three months ended March 31, 2006 and 2005 were \$451,000 and \$224,000, respectively.

The following table provides information about options outstanding and exercisable options at March 31, 2006:

| | Outstanding | Exercisable |
|--------|-------------|-------------|
| Number | 874,008 | 841,007 |

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| | | |
|-----------------------------------|--------------|--------------|
| Weighted average exercise price | \$ 17.68 | \$ 17.66 |
| Aggregate intrinsic value | \$ 3,630,672 | \$ 3,505,836 |
| Weighted average contractual term | 7.1 | 7.1 |

The weighted average remaining contractual life for options outstanding and weighted average exercise price per share for exercisable options at March 31, 2006 were as follows:

| Exercise Price | Outstanding Weighted Average | | | Exercisable | | |
|-------------------|---------------------------------|---|---------------------------------------|-------------|---------------------------------------|---------------------------------------|
| | Shares | Remaining Contractual Life (in years) | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Weighted Average Exercise Price |
| \$ 6.25 - \$10.75 | 51,200 | 3.4 | \$ 10.07 | 51,200 | \$ 10.07 | \$ 10.07 |
| \$12.25 - \$15.15 | 175,350 | 3.8 | 13.30 | 175,350 | 13.30 | 13.30 |
| \$16.25 - \$18.91 | 361,033 | 7.8 | 18.34 | 328,032 | 18.37 | 18.37 |
| \$19.11 - \$22.68 | 286,425 | 9.0 | 20.89 | 286,425 | 20.89 | 20.89 |
| | 874,008 | 7.1 | \$ 17.68 | 841,007 | \$ 17.66 | \$ 17.66 |

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There were no stock options granted during the three months ended March 31, 2006 or March 31, 2005.

5. Pension and Other Post-Retirement Benefit Plans

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

The following table provides a reconciliation of the components of the net periodic benefits cost for the three months ended March 31, 2006 and 2005:

| | For The Three Months | | | |
|---------------------------------------|----------------------|---------------|-----------------|---------------|
| | Ended March 31 | | | |
| | Defined Benefit | | Post-Retirement | |
| | Pension Plans | | Benefit Plan | |
| | 2006 | 2005 | 2006 | 2005 |
| Service cost | \$ 323 | \$ 328 | \$ 3 | \$ 6 |
| Interest cost | 434 | 416 | 35 | 50 |
| Expected return on plan assets | (557) | (544) | | |
| Amortization of transition obligation | | | 6 | 6 |
| Amortization of prior service costs | 32 | 32 | (34) | |
| Amortization of net (gain) loss | 111 | 111 | 51 | 50 |
| Net periodic benefit cost | \$ 373 | \$ 343 | \$ 61 | \$ 112 |

As stated in the Corporation's 2005 Annual Report, the Corporation does not have any minimum funding requirement for its QDBP for 2006. Additionally, the Corporation is expected to contribute approximately \$131 thousand to the SERP plan for 2006. As of March 31, 2006 no contributions have been made to either of the pension plans for 2006. Changes were made to the PRBP in 2005 limiting future increases in plan costs to 120% of the then current benefit.

6. Segment Information

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

The Corporation has identified four segments as defined by SFAS No. 131 as follows: Banking, Wealth Management, Mortgage Banking and All Other. Footnote 24 Segment Information, in the Notes to the Consolidated Financial Statements in the Corporation's 2005 Annual Report on Form 10K provides additional descriptions of the identified segments.

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Segment information for the quarter ended March 31, 2006 and 2005 is as follows:

(Dollars in thousands)

| | Banking | Wealth Management | 2006 Mortgage Banking | All Other | Consolidated |
|---|----------|----------------------|-----------------------------|--------------|--------------|
| Net interest income | \$ 8,184 | \$ | \$ | \$ 10 | \$ 8,194 |
| Less: Loan loss provision | 154 | | | | 154 |
| Net interest income after loan loss provision | 8,030 | | | 10 | 8,040 |
| Other income: | | | | | |
| Fees for wealth management services | | 3,120 | | | 3,120 |
| Other income | 837 | | 564 | 65 | 1,466 |
| Total other income | 837 | 3,120 | 564 | 65 | 4,586 |
| Other expenses: | | | | | |
| Salaries and benefits | 3,591 | 1,277 | 176 | 103 | 5,147 |
| Occupancy | 929 | 159 | 49 | (31) | 1,106 |
| Amortization of mortgage servicing rights | | | 86 | | 86 |
| Other operating expense | 1,295 | 258 | 67 | (114) | 1,506 |
| Total other expense | 5,815 | 1,694 | 378 | (42) | 7,845 |
| Segment profit (loss) before income taxes | 3,052 | 1,426 | 186 | 117 | 4,781 |
| Intersegment pretax revenues (expenses) * | (20) | 45 | | (25) | |
| Segment pretax profit (loss) after eliminations | \$ 3,032 | \$ 1,471 | \$ 186 | \$ 92 | \$ 4,781 |
| % of segment pretax profit (loss) | 63.4% | 30.8% | 3.9% | 1.9% | 100.0% |

| | Banking | Wealth Management | 2005** Mortgage Banking | All Other | Consolidated |
|---|----------|----------------------|-------------------------------|--------------|--------------|
| Net interest income | \$ 7,348 | \$ | \$ | \$ 20 | \$ 7,368 |
| Less: Loan loss provision | 187 | | | | 187 |
| Net interest income after loan loss provision | 7,161 | | | 20 | 7,181 |
| Other income: | | | | | |
| Fees for wealth management services | | 2,654 | | | 2,654 |
| Other income | 848 | 1 | 845 | 66 | 1,760 |
| Total other income | 848 | 2,655 | 845 | 66 | 4,414 |
| Other expenses: | | | | | |
| Salaries and benefits | 3,208 | 1,127 | 248 | 65 | 4,648 |
| Occupancy | 835 | 154 | 58 | (31) | |