MSA Safety Inc
Form DEF 14A
April 07, 2017
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a)**

**of the Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to §240.14a-12

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

# MSA Safety Incorporated

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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# 2017 Proxy Statement

## YOUR VOTE IS IMPORTANT

Please vote by using the internet, telephone, smartphone

or by signing, dating and returning the enclosed proxy card

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MSA SAFETY INCORPORATED 1000 CRANBERRY WOODS DRIVE, CRANBERRY TOWNSHIP, PENNSYLVANIA 16066 PHONE (724) 776-8600

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

To the Holders of Common Stock of

MSA Safety Incorporated:

Notice is hereby given that the Annual Meeting of Shareholders of MSA Safety Incorporated will be held on Wednesday, May 17, 2017 at 9:00 A.M., local Pittsburgh time, at the MSA Corporate Center, 1000 Cranberry Woods Drive, Cranberry Township, Pennsylvania 16066 for the purpose of considering and acting upon the following:

(1) *Election of Directors for 2020:* The election of three directors for a term of three years;

(2) *2017 Non-Employee Directors Equity Incentive Plan Approval:* Approval of Adoption of the Company s 2017 Non-Employee Directors Equity Incentive Plan;

(3) *Selection of Independent Registered Public Accounting Firm:* The selection of the independent registered public accounting firm for the year ending December 31, 2017;

(4) *Say on Pay:* To provide an advisory vote to approve the executive compensation of the Company s named executive officers;

(5) *Say on Pay Frequency Vote:* To provide an advisory vote on the frequency of the advisory vote to approve executive compensation.

and such other business as may properly come before the Annual Meeting or any adjournment thereof.

Only the holders of record of Common Stock of the Company on the books of the Company at the close of business on February 28, 2017 are entitled to notice of and to vote at the meeting and any adjournment thereof.

You are cordially invited to attend the meeting. Whether or not you expect to attend the meeting, please vote by promptly submitting your proxy by mail, by the internet or by phone. If you attend the meeting, you may, if you wish, withdraw your proxy and vote your shares in person.

By Order of the Board of Directors,

DOUGLAS K. MCCLAINE

*Secretary*

April 7, 2017

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## PROXY SUMMARY

### 2017 Annual Meeting of Shareholders

| | |
|---|---|
| When: | 9: 00 a.m. EDT on May 17, 2017 |
| Where: | MSA Corporate Center<br>1000 Cranberry Woods Drive<br>Cranberry Township, PA 16066 |
| Record Date: | February 28, 2017 |
| Voting: | Shareholders of the Company as of the Record Date are entitled to vote on the matters presented at the meeting. Each share of common stock of the Company is entitled to one vote for each director nominee and for one vote on each of the other matters presented. |

### Voting Matters

| Voting Matter | | Board Recommendation | Proxy Page Reference |
|---|---|---|---|
| Proposal No. 1 | Election of Directors | FOR each nominee | 2 |
| Proposal No. 2 | 2017 Non-Employee Directors Equity Incentive Plan Approval | FOR | 13 |
| Proposal No. 3 | Selection of Ernst & Young LLP | FOR | 55 |
| Proposal No. 4 | Advisory Vote to Approve Executive Compensation | FOR | 57 |
| ProposalNo. 5 | Advisory Vote on Frequency of the Advisory Vote to Approve Executive Compensation | FOR ONE YEAR | 58 |

### 1. Director Nominees

Ms. Diane M. Pearse, Mr. L. Edward Shaw, Jr. and Mr. William M. Lambert were nominated by the Board for election in the Class of 2020. The table beginning on page 2 sets forth certain information about the nominees, all of whom are currently members of the Board, and about the other directors whose terms of office will continue after the Annual Meeting. We are asking shareholders to vote FOR the election of the nominees, each of whom has consented to be named as a nominee and to serve if elected.

### 2. 2017 Non-Employee Directors Equity Incentive Plan Approval

We are asking shareholders to vote FOR the approval of the Company s 2017 Non-Employee Directors Equity Incentive Plan, to ensure the Company s continuing ability to attract and retain qualified persons to serve on the Company s Board of Directors and to provide a flexible range of compensation options under the plan.

**3. Auditor**

We are asking shareholders to approve the selection of Ernst & Young LLP as our independent registered public accounting firm for 2017.

**4. Advisory Vote to Approve Executive Compensation**

We are asking shareholders to vote FOR the Company s compensation of the named executive officers. The Board and the Compensation Committee will take into account the outcome when considering future executive compensation arrangements. In 2016, the shareholders voted in favor of the Company s executive compensation program, with 99.1% of the votes cast by shareholders voting FOR the proposal. The Board and Compensation Committee took this vote into consideration in designing the executive compensation program for 2017. Please see the Compensation Discussion and Analysis in the proxy statement for complete details about compensation for the named executive officers.

**5. Advisory Vote on Frequency of the Advisory Vote to Approve Executive Compensation**

With respect to the advisory vote on the frequency of the advisory vote to approve executive compensation, we are asking shareholders to vote for a ONE YEAR period. The Company presently uses a one year period for advisory votes to approve executive compensation. The Board will take into account the outcome when considering the frequency of future advisory votes to approve executive compensation.

**Your Vote is Important: Shareholders can vote using any of the following methods**

| | | | |
|---|---|---|---|
| BY INTERNET USING YOUR COMPUTER | BY TELEPHONE | BY INTERNET USING YOUR TABLET OR SMARTPHONE | BY MAILING YOUR PROXY CARD |

Please refer to your proxy card and/or voting instruction form for internet, telephone, smartphone or mail instructions

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## FREQUENTLY ASKED QUESTIONS

**1. What is a proxy statement?**

Certain shareholder votes take place each year at the Annual Meeting of Shareholders. Since most shareholders do not attend the annual meeting in person, we request your authorization (or your proxy ) in advance to instruct designated persons (your proxy holders ) how to vote your shares at the meeting. A proxy statement is a document we are required to give you when requesting your voting authority and instructions. Regulations of the U.S. Securities and Exchange Commission (the SEC ) also require that we include specific information about the Company in the proxy statement.

**2. Why did I receive this proxy statement?**

All shareholders of MSA Safety Incorporated as of February 28, 2017, the record date for this year s Annual Meeting of Shareholders, are entitled to vote at the meeting. We are furnishing this proxy statement and proxy card, along with our annual report, to all shareholders of record as of the record date.

**3. What is a shareholder of record? What is a beneficial owner?**

***Shareholders of Record***

Shareholders can own stock directly in their own name through our transfer agent, Wells Fargo Shareowner Services. Such shareholders are referred to as shareholders of record. When you are a shareholder of record, we will provide you with the proxy statement and an accompanying proxy card.

***Beneficial Owners***

Shareholders can also own stock indirectly, through one or more brokers or institutions. Such shareholders are referred to as beneficial owners. When you are a beneficial owner, your stock is registered in the name of your broker or other institution. We mail proxy statements for beneficial owners to the broker or other institution. It is their responsibility to forward you the proxy statement, along with instructions about how you can vote your shares. Shareholders can be both shareholders of record for some shares and beneficial owners for other shares, and may own shares through multiple brokerage or institutional accounts. In such cases, those shareholders will receive proxy materials for each account.

***Important Information for MSA Employees***

MSA employees may own stock a number of ways, including but not limited to: (a) as a shareholder of record, (b) as a beneficial owner through UBS Financial Services Inc., for shares earned through equity compensation plans, (c) as a beneficial owner through other brokers or institutions, and/or (d) by electing to purchase MSA stock in the MSA Stock Fund of the MSA Retirement Savings Plan (401(k)). If you hold shares in more than one of these ways, you should receive multiple sets of proxy materials.

**4. What is a proxy card?**

A proxy card or other voting instructions accompany each set of proxy materials. When you are a shareholder of record, we send you a proxy card along with your proxy statement. When you are a beneficial owner, the broker or other institution that holds your shares will forward you a voting instruction form. It is important to follow the instructions on each proxy card and voting instruction form you receive, or those particular shares will not be voted.

**5. What do I do if I receive a proxy card AND voting instruction form(s)?**

Please follow the voting instructions for each set of materials you receive. If you own stock through more than one account, you should receive multiple sets of materials. It is necessary to cast a vote for **all** sets of materials you receive or some of your shares will not be voted.

**6. What happens if I do not complete a proxy or voting instruction form(s)?**

If you do not complete a proxy or voting instruction form(s), then those particular shares will not be voted in director elections, the advisory vote to approve the executive compensation of the named executive officers or the advisory vote on the frequency of the advisory vote to approve executive compensation.

**7. When will the Company announce the voting results?**

The Company will announce the preliminary voting results at the Annual Meeting of Shareholders. The Company will file the final voting results with the SEC and publish them on our investor relations website within four business days following the Annual Meeting of Shareholders.

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## MSA SAFETY INCORPORATED

## PROXY STATEMENT

**Important Notice Regarding the Availability of Proxy Materials for the Shareholders Meeting**

**to be held on May 17, 2017**

**The 2017 Proxy Statement and the Annual Report to Shareholders for the year ended December 31, 2016**

**are also available at www.proxyvote.com**

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the Board ) of MSA Safety Incorporated (the Company or MSA ) of proxies in the accompanying form to be voted at the Annual Meeting of Shareholders of the Company to be held on Wednesday, May 17, 2017, and at any and all adjournments thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. You may vote in person by attending the meeting or by completing and returning a proxy by mail, by telephone or electronically, using a smartphone, tablet or the internet. To vote your proxy by mail, mark your vote on the proxy card, and follow the mailing directions on the card. To vote your proxy by telephone or electronically using a smartphone, tablet or the internet, follow the instructions on the proxy card. The proxy holders will vote your shares according to your directions. If you sign and return your proxy card but do not mark any selections, your shares represented by that proxy will be voted as recommended by the Board.

Whether or not you plan to attend the meeting, we encourage you to vote by proxy as soon as possible. A shareholder giving the accompanying proxy by mail has the power to revoke or change it at any time prior to its exercise upon written notice given to the Secretary of the Company. Please note that, in order to be effective, the revocation or change must be received by 11: 59 p.m. EDT on May 16, 2017. The mailing address of the principal executive offices of the Company is 1000 Cranberry Woods Drive, Cranberry Township, PA 16066. A shareholder voting the proxy by telephone or by the internet has the power to revoke or change such proxy vote by voting again and following the instructions and meeting the deadlines for such vote as set forth on the proxy card.

### VOTING SECURITIES AND RECORD DATE

As of February 28, 2017, the record date for the Annual Meeting, 37,766,907 shares of Common Stock were issued and outstanding.

Only holders of Common Stock of the Company of record on the books of the Company at the close of business on February 28, 2017, are entitled to notice of and to vote at the Annual Meeting and at any adjournment thereof. Such holders are entitled to one vote for each share held and do not have cumulative voting rights with respect to the election of directors. Holders of outstanding shares of the Company s $4^1/_2$% Cumulative Preferred Stock are not entitled to vote at the meeting.

See Stock Ownership on page 53 below for information with respect to share ownership by the directors and executive officers of the Company and the beneficial owners of 5% or more of the Company s Common Stock.

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## PROPOSAL NO. 1

## ELECTION OF DIRECTORS

At the Annual Meeting, three directors will be elected to serve until the Annual Meeting in 2020. Ms. Diane M. Pearse, Mr. L. Edward Shaw, Jr. and Mr. William M. Lambert were nominated by the Board for election in the Class of 2020. **The Board of Directors and its Nominating and Corporate Governance Committee recommend a vote FOR the election of the nominees, each of whom has consented to be named as a nominee and to serve if elected**. Properly submitted proxies that are timely received will be voted for the election of the nominees named below, unless otherwise directed thereon, or for a substitute nominee designated by the Nominating and Corporate Governance Committee in the event a nominee named becomes unavailable for election.

The following table sets forth certain information about the nominees, all of whom are currently members of the Board, and about the other directors whose terms of office will continue after the Annual Meeting.

**Nominees for terms expiring in 2020**

| | |
|---|---|
| **Diane M. Pearse,** Chief Executive Officer and President, Hickory Farms, LLC (a specialty foods company) since March 2016. Ms. Pearse was Chief Operating Officer, Garrett Brands, LLC from May 2015 to March 2016, and prior thereto, Ms. Pearse was Senior Vice President, Operations and Merchandising for Redbox Automated Retail, LLC (a fully automated DVD rental company).<br><br>*Qualifications:* Ms. Pearse brings extensive financial, accounting, and operational expertise to the Company s board, given her substantial financial oversight experience and business leadership for several large consumer products and retail companies.<br><br>*Committees:* Audit; Compensation; Finance (Chair); Law | **Age:** 59<br><br>**Director Since:** 2004 |
| **L. Edward Shaw, Jr.,** Retired (2005) from full time position as Independent Counsel to the Board of Directors of the New York Stock Exchange on regulatory matters; Retired (2010) from part time position as Senior Managing Director of Breeden Capital Management LLC (investment management and multi-disciplinary professional services firm); currently a Director of HealthSouth Corporation. Formerly served in senior legal and executive roles with three international financial institutions including The Chase Manhattan Bank and as a partner in a major international law firm.<br><br>*Qualifications:* Given his substantial legal experience, along with his executive experience with three international financial institutions, Mr. Shaw offers the board strong expertise in the legal and financial aspects of operating an international company, including specific skills in corporate governance, risk management and mergers and acquisitions. Mr. Shaw is the brother-in-law of Mr. Ryan.<br><br>*Committees*: Finance; Law (Chair); Nominating and Corporate Governance (Chair) | **Age:** 72<br><br>**Director Since:** 1998 |
| **William M. Lambert,** Chairman, President and Chief Executive Officer of the Company; Mr. Lambert was elected Chairman in May 2015; currently a Director of Kennametal Inc.<br><br>*Qualifications*: Mr. Lambert has served MSA as an employee for 35 years, joining the company as a design engineer, and has worked in a number of executive capacities over the past 21 years. As the Company s Chairman, President and CEO, and given his long tenure with the Company, Mr. Lambert brings to the board extensive experience in the Company s business | **Age:** 58<br><br>**Director Since:** 2007 |

with particular expertise in the oversight and execution of the Company s business strategy, along with product development, marketing, finance and the global safety products industry.

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**Continuing Director with term expiring in 2018**

| | |
|---|---|
| **John T. Ryan III,** Retired (2008); formerly Chief Executive Officer and Chairman of the Company.<br><br>*Qualifications:* Mr. Ryan joined MSA in 1969 and held numerous executive positions throughout his tenure with the Company. He retired as Chief Executive Officer in 2008 after four decades of employment with the Company. Mr. Ryan remains on the board as a director. As the former CEO and long tenured senior executive for the Company, Mr. Ryan brings to the board extensive leadership experience and specific expertise in corporate strategy oversight and execution, as well as extensive safety products industry expertise, particularly in international markets.<br><br>*Committees:* Finance; Law; Nominating and Corporate Governance | **Age:** 73<br><br>**Director Since:** 1981 |
| **Thomas H. Witmer,** Retired (1998); formerly President and Chief Executive Officer, Medrad, Inc. (manufacturer of medical devices); prior to Medrad, Mr. Witmer held executive positions of increasing importance with Corning Inc. and Union Carbide Imaging Systems.<br><br>*Qualifications*: As the former Chief Executive Officer of a publicly traded international company along with his prior executive leadership experience, Mr. Witmer brings broad executive leadership and business oversight experience to the Company s board, along with specific expertise in global engineering, product design, operations and marketing in international markets. While the CEO of Medrad, that company was a two time recipient of the Malcolm Baldrige national quality award for business excellence.<br><br>*Committees*: Audit; Compensation; Nominating and Corporate Governance | **Age:** 74<br><br>**Director Since:** 1997 |

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**Continuing Directors with terms expiring in 2019**

**Robert A. Bruggeworth,** President and Chief Executive Officer, and a Director of, Qorvo, Inc. (high-performance RF components and compound semiconductors manufacturer) since January 2015. Prior to the merger of RF Micro Devices, Inc. ( RFMD ) and TriQuijnt Semiconductor, Inc. to form Qorvo, Inc., he was President and CEO of RFMD.

*Qualifications*: Mr. Bruggeworth is presently the CEO of a publicly traded international corporation, bringing to the Company s board specific expertise in managing a large, global business, along with specific expertise in mergers and acquisitions, manufacturing, marketing and material sourcing for high technology products.

*Committees*: Audit; Compensation (Chair)

**Age:** 55

**Director Since:** 2007

**Alvaro Garcia-Tunon,** Retired (2013); formerly Executive Vice President and Chief Financial Officer of Wabtec Corporation (a provider of products and services for the global rail industry) since February 2012; prior thereto Mr. Garcia-Tunon was Executive Vice President, Chief Financial Officer and Secretary of Wabtec; currently a Director of Matthews International Corporation and Allison Transmission Holdings, Inc.

*Qualifications:* As a former Chief Financial Officer of a publicly traded international corporation, Mr. Garcia-Tunon has broad skills in overseeing a large international business, along with specific mergers and acquisitions, corporate governance and risk management expertise. He also provides the Company s board with strong financial and accounting expertise. Mr. Garcia-Tunon is also an attorney and CPA.

*Committees:* Audit (Chair); Finance; Law

**Age:** 64

**Director Since:** 2012

**Rebecca B. Roberts,** Retired (2011); formerly President of Chevron Pipe Line Company since 2006, a wholly owned subsidiary of Chevron Corp. (a petroleum producer), managing more than 10,000 miles of oil and petroleum products pipelines throughout North America; prior thereto, Ms. Roberts was President of Chevron Global Power Generation, maintaining a portfolio of commercial power plants in the U.S., Asia and Europe; currently a Director of Black Hills Corporation and Enbridge Inc.

*Qualifications:* As the former President of a large oil and gas company, combined with her prior international executive leadership positions, Ms. Roberts brings to the Company s board significant international business management, operations and workplace safety expertise, along with extensive oil, gas and petrochemical industry expertise.

*Committees:* Compensation; Nominating and Corporate Governance

**Age:** 64

**Director Since:** 2013

**Director Independence**

The Board has determined that each of directors Bruggeworth, Garcia-Tunon, Pearse, Roberts, Ryan, Shaw and Witmer is an independent director. An independent director is a director who has no material relationship with the Company, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company. The independent directors have specifically considered and determined that Mr. Ryan, who retired as CEO of the Company over eight years ago, is an independent director (along with his brother-in-law Mr. Shaw). One reason for this is that, given Mr. Ryan s substantial ownership interest in MSA (see Stock Ownership, page 53 below), he is particularly aligned in independently representing the interests of shareholders.

In making its independence determinations, the Board reviewed the director s individual circumstances, the corporate governance standards of the New York Stock Exchange and the Board s independence standards. These standards are available in the Corporate Governance section of the Company s internet website at www.MSAsafety.com. They are summarized below.

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*Disqualifying Relationships*

The following relationships are considered to be material relationships that would impair a director s independence:

- If a director is an employee or has an immediate family member who is an executive officer of the Company, the director is not independent until three years after the end of the employment relationship.

- If a director or an immediate family member receives more than $120,000 per year in direct compensation from the Company, the director is not independent until three years after the director or family member ceases to receive such compensation. Disqualifying compensation does not include director and committee fees, pension or deferred compensation for prior service or compensation received by an immediate family member for service as a non-executive officer employee.

- If:

  - the director is a partner of or employed by, or the director s immediate family member is a partner of, the firm that is the present internal or external auditor of the Company;

  - the director s immediate family member is employed by the firm that is the present internal or external auditor of MSA and such family member personally works on the Company s audit; or

  - the director, or the director s immediate family member, was within the last three years a partner or employee of the present internal or external auditor of MSA and personally worked on the Company s audit within that time.

- If a director or an immediate family member is an executive officer of another company, and any of the Company s present executives serves on that company s compensation committee, the director is not independent until three years after the end of such employment or service.

- If a director is an employee or an immediate family member is an executive officer of a company that makes payments to or receives payments from the Company for property or services, and the amount of such payments in a fiscal year exceeds the greater of $1 million or 2% of the other company s consolidated gross revenue, the director is not independent until three years thereafter.

*Non-Disqualifying Relationships*

The following relationships are not considered to be material relationships that would impair a director s independence:

- A director is an executive officer of another company that is indebted to the Company, or to which the Company is indebted, in an amount less than 5% of the other company s total consolidated assets;

A director is an executive officer of another company in which the Company owns a common stock interest less than 5% of the other company s total shareholders equity;

A director serves as an executive officer of a charitable organization, and the Company s discretionary contributions to the organization are less than 2% of the organization s annual revenue; or

A director is an executive officer of another company that owns a common stock interest in the Company.

*Other Relationships*

The Board will annually review commercial and charitable relationships of directors. If a relationship is not one of the non-disqualifying relationships described above, the determination of whether the relationship is material or not, and therefore whether the director is independent or not, is made by the directors who satisfy the independence guidelines set forth under the two preceding captions.

For example, if a director is the executive officer of a charitable organization, and the Company s discretionary contributions to the organization are more than 2% of that organization s annual revenue, the independent directors will determine, after considering all of the relevant circumstances, whether the relationship is material, and therefore whether or not the director should be considered independent. The Company will explain in its proxy statement the basis for any Board determination that a relationship is not material, despite the fact that it does not meet one of the safe-harbors under Non-Disqualifying Relationships above.

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*Independence Determinations for Compensation Committee Members*

In affirmatively determining the independence of any director who will serve on the Compensation Committee, the Board will consider all factors specifically relevant to determining whether the director has a relationship to the Company which is material to the director s ability to be independent from management in connection with the duties of a compensation committee member, including, but not limited to (i) the source of compensation of such director, including any consulting, advisory or other compensatory fee paid by the Company to such director, and (ii) whether such director is affiliated with the Company, a subsidiary of the Company, or an affiliate of a subsidiary of the Company.

**Corporate Governance Matters**

The Board places a continued focus upon the corporate governance affairs of the Company and acknowledges that good corporate governance is an ongoing process. The Board also recognizes that good corporate governance is important to the Company s success. Key Company governance practices are described below.

*Corporate Governance Guidelines*

The Board has adopted Corporate Governance Guidelines which cover a wide range of subjects, such as the role of the Board and its responsibilities, Board composition and election, operations and committees, lead director responsibilities, director compensation, director retirement, Board and management evaluation and succession planning, director orientation and training, and shareholder communications with the Board. The Corporate Governance Guidelines, as well as the charters of the Board s Audit, Compensation, Nominating and Corporate Governance, Finance and Law Committees and the Company s Global Code of Business Conduct for directors, officers and employees, are available in the Corporate Governance section of the Company s internet website at www.MSAsafety.com. Such material will also be furnished without charge to any shareholder upon written request to the Corporate Secretary at the Company s address appearing on page one.

*Board Leadership*

The Board presently combines the position of Chairman of the Board and Chief Executive Officer. The current Chairman and Chief Executive Officer is Mr. Lambert, who was elected Chairman in May 2015. Prior to his election as Chairman, Mr. Lambert served as a director and Chief Executive Officer. Mr. Ryan served as Non-Executive Chairman until May 2015. The Chairman is elected annually by the Board.

The Board periodically reviews its leadership structure and did so in May 2016. The Board believes that Mr. Lambert is presently best positioned to serve as Chairman given his familiarity with the Company s business, the safety products industry, and the oversight and execution of the Company s corporate strategy. The Board also presently believes that this structure allows for one person to speak for and to lead the Company and the Board. The Board has separated the roles in the past and may choose to do so again in the future. The decision by the Board on whether to combine or separate the roles is based upon the needs of the Company and Board at a given time.

The Board also believes that it is in the best interests of the Company to maintain effective independent board oversight. Accordingly, the Board annually selects a lead independent director (the lead director ) to further augment its corporate governance practices. Mr. Witmer has served as lead independent director since May 2012.

The Chairman presides at Board meetings, collaborates with the lead director to establish the annual Board calendar, set meeting objectives and agendas and preside at board meetings. The Chairman also chairs the annual meeting of shareholders, speaks for the Company to its shareholders, and carries out other responsibilities as may be set forth in the Corporate Governance Guidelines or be requested from the Board from time to time.

The lead director serves as a liaison between the independent directors and the CEO, including regular communications with directors to obtain their views and advice, to work to improve Board performance, to facilitate communications among directors, and to communicate to the CEO the concerns of the independent directors; convenes meetings of the independent directors as necessary, and presides at all executive sessions of the Board s independent directors; presides at Board meetings at which the CEO is not present; collaborates with the CEO to prepare and approve schedules and agendas for Board meetings, ensuring that input is received from directors and management; retains outside advisors to be engaged by the Board on board-wide matters, as needed; together with the Chair of the Compensation Committee, contributes to the annual performance evaluation summary of the CEO and participates in its communication to the CEO; collaborates with the CEO to ensure that contributions are made by all directors during meetings, that differences of opinion are freely expressed, and that discussion is driven to a timely conclusion while building consensus as appropriate; and collaborates with the CEO to ensure that meeting goals and objectives are clearly defined and met, and to ensure prioritization and appropriate follow-through on actions from meeting to meeting. The lead director will pay particular attention to assuring that the Board adequately addresses long term strategy, long term performance, risk management, and succession planning.

The Board maintains an active structure of independent director leadership. In furtherance of this, the Corporate Governance Guidelines provide that it is the Company s practice for the independent directors to meet at each Board meeting in executive session, with no members of management present. The lead director serves as the chairman of the executive sessions. The audit, compensation, nominating and corporate governance, finance and law committees are also each comprised solely of and led by an independent director, as defined by the director independence standards of the New York Stock Exchange and the Board s independence standards.

*Board, Committee, Individual Director and Lead Director Assessments*

The Nominating and Corporate Governance Committee oversees annual self-assessment processes for the Board and the audit, compensation and nominating and governance committees, along with peer assessments for each director and the lead director. The purpose of the Board and committee assessments is to continually enhance the effectiveness of the Board and its committees. The Board self-assessment gathers feedback on a range of topics such as the Board s overall effectiveness, governance structure, board and management dynamics, meeting administration, and other topics. The committee self-assessments are tailored to the specific roles and responsibilities of each committee.

The purpose of the individual director and lead director peer assessments is to provide feedback to each director, enabling them to continually enhance their performance, and to inform the Nominating and Corporate Governance Committee as to each director s fitness for re-nomination.

*Director Tenure, Succession and Recruitment*

The Board periodically considers its composition and acknowledges the significance of board refreshment. The present mix of director tenures provides the Board with the contribution of new and diverse ideas while ensuring continuity and insight developed through a deep understanding of the Company and its industry. Mr. Garcia-Tunon and Ms. Roberts have served for five or fewer years; Mr. Bruggeworth, Mr. Lambert and Ms. Pearse have served from ten to thirteen years; and Messrs. Ryan, Shaw and Witmer have served for more than fifteen years.

The Nominating and Corporate Governance Committee is responsible for identifying and reviewing potential director candidates and for recommending nominees to the Board. The Committee will consider director candidate recommendations from a variety of sources, including from a shareholder, a non-management director, the chief executive officer, any other executive officer, a third party search firm, or other appropriate sources. In evaluating all potential candidates, the Committee is guided by an executive skills matrix of the Company s current directors to identify specific needs, and a defined list of director recruitment criteria maintained by the Committee. The fundamental criterion for selecting a prospective director is the ability to contribute to the well-being of the Company and its shareholders. Good judgment, integrity and a commitment to the mission of the Company are essential. Other criteria include independence under the Board s independence standards, a commitment to the mission and values of the Company, applicable business experience, current chief executive officer or other C-Suite experience, merger and acquisition experience, additional public company board experience and other criteria. The Committee may revise and/or prioritize its director recruitment criteria depending on the current needs of the Board and the Company.

In preparing its candidate recommendations to the Board, the Committee also considers, but does not choose solely on the basis of, the distinctive experiences and perspectives of diverse candidates. In evaluating diversity, the Committee and the Board consider not only race, national origin, and gender diversity, but also the need for a Board that represents diverse

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experience at policy making levels in business, past professional accomplishments, and other factors when recommending prospective directors for the Company. The director recruitment criteria described above, including diversity, are considered by the Committee each time a new candidate is reviewed for Board membership.

*Director Resignation Policy*

The Board has adopted a resignation policy with respect to uncontested director elections. In accordance with this resignation policy, a director nominee who does not receive a majority of the votes cast in an uncontested election of directors must promptly tender a resignation to the Board. The Board s procedures for identifying an uncontested election of directors, determining the majority of votes cast, and responding to a tender of resignation, are specified in the Corporate Governance Guidelines, which are available in the Corporate Governance section of the Company s website at www.MSAsafety.com.

*Director Retirement*

Pursuant to the Board s existing retirement policy as set forth in the Corporate Governance Guidelines, directors are required to retire from the Board at the annual meeting of shareholders in the year of their 75th birthday. Pursuant to that policy, Mr. Witmer s retirement from the Board was anticipated to occur at the 2017 Annual Meeting of Shareholders. The Board asked Mr. Witmer, whose current term would otherwise expire at the annual meeting of shareholders in 2018, to remain as a director while it pursues the recruitment of a new director. The Board believes that Mr. Witmer s experience as a director and his knowledge of the Company s business will continue to be of value to the Board while it searches for a new director. Accordingly, in February 2017 the Board approved a waiver of the terms of the retirement policy, so that Mr. Witmer may continue as a director for up to twelve months beyond his normal retirement date.

*Meeting Attendance*

The Board met nine times during 2016. All directors attended at least 75% of the combined total of the meetings of the Board and of all committees on which they served. Directors are expected to attend the Annual Meeting of Shareholders. All directors attended last year s annual meeting.

**Board Committees**

The Board has established an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee, a Finance Committee, a Law Committee and certain other committees. Each committee specified below presently consists of the directors listed. Committee appointments will expire at the 2017 organizational meeting of the Board which takes place following the Annual Meeting of Shareholders. At the organizational meeting of the Board, committee appointments will be made for the following year.

The Audit Committee presently consists of directors Bruggeworth, Garcia-Tunon (Chair), Pearse and Witmer. The Audit Committee, which met six times during 2016, assists the Board in fulfilling its oversight responsibility relating to the integrity of the Company s financial statements and financial reporting process. The Committee selects and recommends annually to the Board and the shareholders the independent registered public accounting firm to audit the Company s financial statements, approves in advance all audit and non-audit services performed by the independent registered public accounting firm, reviews the plans, findings and recommendations of the independent registered public accounting firm, and reviews and evaluates the performance of the independent registered public accounting firm, its independence and its fees. The Committee reviews and discusses with management and the independent registered public accounting firm the Company s financial statements and reports and its internal and disclosure controls and matters relating to the Company s internal control structure. The Committee oversees the Company s Global Code of Business Conduct and related Company programs governing legal and regulatory compliance, which includes a periodic review with management of the implementation and effectiveness of the Company s compliance programs. The Committee, along with the Board, also oversees the Company s enterprise risk management program. Pursuant to this program, the Committee reviews with management the Company s analyses of risks and contingency plans on a bi-annual basis. The Board has determined that each of directors Garcia-Tunon and Pearse is an audit committee financial expert, as defined by the rules of the Securities and Exchange Commission.

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The Compensation Committee presently consists of directors Bruggeworth (Chair), Pearse, Roberts and Witmer. The Compensation Committee, which met three times in 2016, reviews and recommends (to the independent directors for approval) the annual goals, performance and compensation of the Company s chief executive officer, reviews and approves the compensation of all other executive officers and other key executives, monitors the effectiveness of all other employee benefit offerings, manages the Company s overall compensation strategy and compensation plans, assesses any risk inherent in these plans and attempts to ensure that such risk is not excessive and is acceptable to the Company and employs, compensates and oversees the Company s external compensation consultant and assures its independence. The Compensation Committee also administers the Company s Amended and Restated 2016 Management Equity Incentive Plan and predecessor equity plans (collectively, the Management Equity Plans ).

The Nominating and Corporate Governance Committee presently consists of directors Roberts, Ryan, Shaw (Chair) and Witmer. The Committee, which met three times in 2016, reviews and makes recommendations to the Board regarding the composition and structure of the Board, criteria and qualifications for Board membership, director compensation and evaluation of current directors and potential candidates for director. The Committee maintains formal processes for evaluating the performance of the Board, the lead director, and the individual directors. It is also responsible for establishing and monitoring policies and procedures concerning corporate governance. Further information concerning the Nominating and Corporate Governance Committee and its procedures appears below. The Nominating and Corporate Governance Committee and the Board continually assess the Company s Corporate Governance Guidelines and the corporate governance practices of the Board.

The Finance Committee presently consists of directors Garcia-Tunon, Pearse (Chair), Ryan and Shaw. The Committee, which met two times in 2016, reviews and makes recommendations to the Board regarding the Company s capital structure, dividend policy, financing activities, hedging policies and practices, funding of the Company s employee benefit plans, liquidity management, corporate financial plans, and strategic financial analyses as requested by the Board.

The Law Committee presently consists of directors Garcia-Tunon, Pearse, Ryan and Shaw (Chair). The Committee, which met six times in 2016, reviews legal matters that could present significant financial risk to the Company.

**Risk Oversight**

The Board as a whole exercises oversight of the Company s strategic risks and other risks identified through the Company s enterprise risk management program. Strategic risks are identified in the course of the Board s review and approval of the Company s plans and there is regular monitoring of the Company s performance against the strategic objectives including customer satisfaction metrics as well as periodic review of the activities of competitors. The Board, directly and through its Audit Committee, also has oversight of the enterprise risk management program which is managed by the Chief Financial Officer. The enterprise risk management program is designed to enable effective and efficient identification and management of critical enterprise risks and to facilitate the incorporation of risk considerations into decision making. The Director of Financial Planning and Analysis is responsible for leading the formal risk assessment and reporting process within the Company. The Director of Financial Planning and Analysis, through consultation with the Company s executive leadership, periodically assesses the major risks facing the Company and works with the executive leadership team and others responsible for managing each risk to identify and consider appropriate mitigation elements to each risk, and develop risk contingency plans as appropriate. This analysis is reviewed two times each year with the Audit Committee and annually with the full Board, and input from the Board is considered in the analysis. Emerging risks are discussed as needed.

In addition to the Board oversight described above, each committee has various risks that it oversees. For example, the Audit Committee is responsible for reviewing the Company s risk management policies and procedures, as well as its major financial risk exposures, and the processes management has established to monitor and control such exposures. The Compensation Committee monitors risk inherent in the

Company s compensation policies, compensation practices, and similar matters related to the recruitment and retention of employees. The Nominating and Corporate Governance Committee monitors risks related to Board performance and the Company s governance practices.

The Compensation Committee has evaluated the risks arising from the Company s compensation policies and practices for its employees. This included a review of examinations by Pay Governance, LLC, the Compensation Committee s

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compensation consultant, of the compensation philosophy, design, governance and administration of compensation policies and practices provided to MSA s executives. The review also considered information developed by management regarding programs provided to other non-executive employees. Based on this, the Committee concluded again in 2016 that the risks arising from the Company s compensation policies and practices for its employees are not reasonably likely to have a material adverse effect on the Company.

**Compensation of Directors**

The following table shows the compensation earned by the Company s non-employee directors for services during 2016:

| Name | Fees Earned or Paid in Cash | Restricted Stock Award (2) | Changes in Pension Value (3) | Total |
|---|---|---|---|---|
| Robert A. Bruggeworth | $ 85,000 | $ 100,030 | | $ 185,030 |
| Alvaro Garcia-Tunon | $ 83,001 | $ 100,030 | | $ 183,031 |
| Thomas B. Hotopp(1) | $ 28,791 | $ | | $ 28,791 |
| Diane M. Pearse | $ 82,699 | $ 100,030 | | $ 182,730 |
| Rebecca B. Roberts | $ 75,000 | $ 100,030 | | $ 175,030 |
| John T. Ryan III | $ 75,000 | $ 100,030 | | $ 175,030 |
| L. Edward Shaw, Jr. | $ 85,000 | $ 100,030 | | $ 185,030 |
| Thomas H. Witmer | $ 105,000 | $ 100,030 | | $ 205,030 |

(1) Mr. Hotopp retired from the Board in May 2016.

(2) Represents the aggregate grant date fair value of the restricted stock awards computed in accordance with FASB ASC Topic 718.

(3) Represents the amount of the aggregate increase for 2016 in the actuarial present value of the director s accumulated benefits, if any, under the Retirement Plan for Directors described below. Only Messrs. Hotopp, Ryan, Shaw and Witmer are entitled to benefits under such Plan.

For 2016, the Company paid non-employee directors a base retainer on a quarterly basis which totaled $75,000 for the year ( Annual Base Retainer ). The Company paid the lead director an additional retainer of $30,000. The additional annual retainer for the Audit Committee chair was $12,500, for the Compensation Committee chair was $10,000, and for all other committee chairs was $5,000.

Non-employee directors are required to meet a share ownership guideline, equivalent to five times the Annual Base Retainer. Presently, all directors exceed the ownership guidelines.

Under the 2008 Non-Employee Directors Equity Incentive Plan and its predecessor the 1990 Non-Employee Directors Stock Option Plan (together, the Director Equity Plans ), the Company grants stock options, restricted stock, or a mix of each, to each non-employee director on the third business day following each annual meeting. Pro rata awards are authorized under the 2008 plan for directors who join the Board during the period between annual awards. The purposes of the Director Equity Plans are to enhance the mutuality of interests between the Board and the shareholders by increasing the share ownership of the non-employee directors and to assist the Company in attracting and retaining able persons to serve as directors. The total number of shares that may be issued under the 2008 plan is limited to 400,000 shares of Common Stock. The shareholders are being asked to approve a new 2017 Non-Employee Directors Equity Incentive Plan to replace the 2008 plan.

Stock option grants, if awarded, are made using a Black-Scholes option pricing model. The exercise price of the options is equal to the market value on the grant date. The options become exercisable three years from the grant date and expire ten years from the grant date. If a director resigns or is removed from office for cause, options which have not yet become exercisable are forfeited and exercisable options remain exercisable for 90 days. Otherwise, unexpired options may generally be exercised for five years following termination of service as a director, but not later than the option expiration date. Restricted shares vest on the date of the third annual meeting following the grant date. Unvested shares are forfeited if the director terminates service for reasons other than death, disability or retirement.

On May 13, 2016 each non-employee director was granted 2,094 shares of restricted stock. Stock options were not granted to non-employee directors in 2016.

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It is the practice of the Nominating and Corporate Governance Committee to periodically engage an independent compensation consultant to review the compensation of the non-employee directors. Pay Governance, LLC was engaged as the Committee s consultant in 2016 to evaluate director compensation. Following the Committee s review of director compensation, the Board determined that starting in 2017, cash retainers will remain at 2016 levels, Board committee chairpersons annual retainers for some of the committees would be increased by $2,500, and annual grants of equity under the Director Equity Plans will be made in restricted stock with a value of $120,000. In 2016 Pay Governance also provided executive compensation consulting services to the Compensation Committee with respect to executive compensation.

Prior to April 1, 2001, a director who retired from the Board after completing at least five years of service as a director was entitled to receive a lifetime quarterly retirement allowance under the Retirement Plan for Directors. The amount of the allowance was equal to the quarterly directors retainer payable at the time of the director s retirement. Payment began when the sum of the director s age and years of service equaled or exceeded 75. Effective April 1, 2001, plan benefits were frozen so that the quarterly retirement allowance, if any, payable to future retirees will be limited to $5,000 (the quarterly retainer amount in April 2001), multiplied by a fraction, of which the numerator is the director s years of service as of April 1, 2001 and the denominator is the years of service the director would have had at the date the sum of the director s age and years of service equaled 75.

Other than the amounts earned by Messrs. Hotopp and Ryan while they were employees of the Company prior to the Retirement Plan for Directors being frozen as described above, directors who are employees of the Company or a subsidiary do not receive other additional compensation for service as a director.

**Compensation Committee Interlocks and Insider Participation**

There are no interlocking relationships, as defined in regulations of the Securities and Exchange Commission, involving members of the Compensation Committee.

Directors Bruggeworth (Chair), Hotopp (retired May 2016), Pearse (appointed August 2016), Roberts and Witmer served as members of the Compensation Committee during 2016. The Board has determined that each of these directors is independent in accordance with the listing standards of the New York Stock Exchange.

**Review and Approval or Ratification of Related Party Transactions**

The Company has a policy on related party transactions which operates along with the conflicts of interest section of the Company s Global Code of Business Conduct. Copies of the policy on related party transactions and the Code are available in the Corporate Governance section of the Company s internet website at www.MSAsafety.com.

The Company s directors, officers and other employees must be free from any personal influence, interest or relationship, or appearance thereof, in situations that might conflict with the best interests of the Company. Directors, officers and employees must fully disclose in advance any circumstance that may create a conflict of interest, including a related party transaction, so that an appropriate determination can be made as to whether it would violate the policy on related party transactions or the Code.

In general, the related party transactions policy covers any transaction, arrangement or relationship in which the Company is a participant and the amount involved exceeds $120,000, and in which any related person had or would have a direct or indirect material interest. A related person is any executive officer, director or nominee, any owner of 5% or more of the Company s voting securities or an immediate family member of any of the foregoing. The policy covers indirect material interests, but excludes certain relationships and pre-approved transactions.

Any officer, director or employee of the Company who is aware of a proposed transaction that may violate the policy must bring such transaction to the notice of the Chief Legal Officer and Chief Financial Officer of the Company. If the Chief Legal Officer or Chief Financial Officer determines that the proposed transaction could be a related party transaction, the matter will be submitted to the Nominating and Corporate Governance Committee to consider all material facts of the transaction. The Committee is charged with taking a number of items into account as set forth in the policy and determining

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whether the transaction is indeed a related party transaction and if so, whether it should be approved in any particular case. The types of matters which the Committee will take into account are:

- the nature of the related party s interest in the transaction;
- the material terms of the transaction, including the amount and type of the transaction;
- the importance of the transaction to the related party;
- the importance of the transaction to the Company;
- whether the terms of the transaction are comparable to those of similar transactions not involving related parties; and
- whether the transaction would impair the judgment of a director or executive officer to act in the best interests of the Company.

The chairman of the Committee will report on any decision at the next meeting of the Board.

**Nominating and Corporate Governance Committee Procedures**

The current members of the Nominating and Corporate Governance Committee are directors Shaw (Chair), Roberts, Ryan and Witmer, whose terms as Committee members will expire at the 2017 organizational meeting of the Board to be held on the date of the Annual Meeting of Shareholders. The Board has determined that each of the current members of the Committee is independent in accordance with the listing standards of the New York Stock Exchange.

The Committee will consider director candidate recommendations from a variety of sources, including from a shareholder, a non-management director, the chief executive officer, any other executive officer, a third party search firm, or other appropriate sources. Any shareholder who desires to have an individual considered for nomination by the Committee must submit a recommendation in writing to the Corporate Secretary, at the Company s address appearing on page one, not later than 90 days in advance of the annual meeting at which the election is to be held. The recommendation should include the name and address of both the shareholder and the candidate and the qualifications of the candidate recommended.

The Committee determines a process for identifying and evaluating nominees for director on a case by case basis, considering the context in which such nomination is being made. It is not anticipated that the process for evaluating a nominee would differ based on whether the nominee is recommended by a shareholder.

**BOARD RECOMMENDATION AND REQUIRED VOTE**

**PROPOSAL NO. 1: ELECTION OF DIRECTORS**

In the election of directors for terms expiring in 2020, the three candidates receiving the highest numbers of votes cast by the holders of Common Stock voting in person or by proxy will be elected as directors, subject to the resignation policy described above.

A proxy vote indicated as withheld from a nominee will not be cast for such nominee but will be counted in determining whether a quorum exists for the meeting. Shares for which neither a vote for or withheld is selected (e.g., broker non-votes) will not be counted in determining the total votes cast for this matter.

The Company s Restated Articles require that any shareholder intending to nominate a candidate for election as a director must give written notice, containing specified information, to the Secretary of the Company not later than 90 days in advance of the meeting at which the election is to be held. No such notices were received with respect to the 2017 Annual Meeting. Therefore, only the nominees named above will be eligible for election at the meeting.

**The Board of Directors and its Nominating and Corporate Governance Committee recommend a vote FOR the election of the nominees, each of whom has consented to be named as a nominee and to serve if elected.** Properly submitted proxies which are timely received will be voted for the election of the nominees named below, unless otherwise directed thereon, or for a substitute nominee designated by the Nominating and Corporate Governance Committee in the event a nominee named becomes unavailable for election.

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## PROPOSAL NO. 2

## APPROVAL OF ADOPTION OF THE MSA SAFETY INCORPORATED

## 2017 NON-EMPLOYEE DIRECTORS EQUITY INCENTIVE PLAN

The Company s 2017 Non-Employee Directors Equity Incentive Plan (the DEIP ) was adopted by the Company s Board of Directors on March 9, 2017, contingent upon approval by the Company s shareholders. The DEIP replaces the Company s predecessor plan, the 2008 Non-Employee Directors Equity Incentive Plan, and upon approval of the DEIP no further awards will be granted under that plan. The affirmative vote of the shareholders on or prior to March 8, 2018 is required for approval of the DEIP. If the shareholders of the Company do not approve the DEIP as proposed in this Proxy Statement, the DEIP will not be used by the Company.

The principal features of the DEIP are summarized below. The summary is qualified in its entirety by the full text of the DEIP, which is set forth as Appendix A to this Proxy Statement.

**The Board of Directors recommends that the shareholders vote FOR approval of the adoption of the DEIP.** Such approval will ensure the Company s continuing ability to attract and retain qualified persons to serve on the Company s Board of Directors and to provide a flexible range of compensation options under the DEIP. Unless otherwise specified thereon, proxies received in the accompanying form will be voted in favor of approval of the DEIP.

**General**

The purposes of the DEIP are to promote the long-term success of the Company by:

- creating a long-term mutuality of interests between the non-employee directors and shareholders of the Company;
- providing an additional inducement for such directors to remain with the Company; and
- providing a means through which the Company may attract able persons to serve as directors of the Company.

Each person who is a member of the Board of Directors of the Company and who is not an employee of the Company or any subsidiary is eligible to receive automatic awards under the DEIP. It is expected that approximately eight non-employee directors will be eligible to participate in the DEIP.

The maximum aggregate number of shares for which awards may be granted under the DEIP is limited to 150,000 shares of the Company s common stock, without par value (the Common Stock ), subject to adjustment for stock splits, dividends and similar events. Common Stock which is subject to any unexercised, terminated, or expired award will become available for grant pursuant to new awards. The Common Stock which may be issued pursuant to an award under the DEIP may be treasury shares or authorized but unissued shares, or any combination of such shares.

**Administration**

The DEIP will be administered by the Board. A majority of the members of the Board will constitute a quorum. The vote of a majority of a quorum (or the unanimous written consent of the Board members) will constitute action by the Board. The Board has the power to interpret and administer the DEIP. All questions of interpretation with respect to the DEIP, and application of the DEIP, or as to stock options, restricted stock or restricted stock unit awards granted under the DEIP will be determined by the Board, and its determination will be final and binding.

The DEIP provides for the grant of stock options, restricted stock and restricted stock units. All of the foregoing grants are sometimes referred to herein as awards, and the recipient of any award or grant is sometimes referred to herein as a grantee.

**Awards**

The DEIP provides that on the third business day following each Annual Meeting of Shareholders, each director who is not an employee of the Company or a subsidiary will automatically be granted an award with a total value of $120,000, with the composition of the award to be determined by the Board in its discretion. The award may consist of all or any portion of nonstatutory stock options, shares of restricted stock or restricted stock units. For purposes of valuing an award, the value is determined by the Company as of the date of grant based on the accounting grant date value of the award. The amount and

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mix of awards may be adjusted by the Board in its discretion, provided that the value of an annual award under the DEIP may not exceed $350,000.

On March 15, 2017, the fair market value of a share of the Company s Common Stock was $69.52.

The number of shares available under the DEIP and any outstanding awards are automatically adjusted in the event of stock dividends and similar events. In the event the shares of Common Stock have been affected in such a way that an adjustment of outstanding awards is appropriate in order to prevent the dilution or enlargement of rights under the awards (including, without limitation, any extraordinary dividend or other distribution (whether in cash or in kind), recapitalization, stock split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other similar corporate transaction or event), the Board will make appropriate equitable adjustments, which may include, without limitation, adjustments to any or all of the number and kind of shares of stock (or other securities ) which may thereafter be issued in connection with such outstanding awards and adjustments to any exercise price specified in the outstanding awards and will also make appropriate equitable adjustments to the number and kind of shares of stock (or other securities) authorized by, or to be granted under, the DEIP.

**Stock Options**

Stock options granted under the DEIP expire ten years from the date of grant. Options which have not yet become exercisable are forfeited if the director resigns. All stock options are forfeited if the director is removed for cause. Otherwise, unexpired options may be exercised for five years following termination of service as a director (90 days in the case of resignation).

Stock options granted under the DEIP may be exercised by paying the option price to the Company in cash, by delivering to the Company shares of Common Stock having a market value on the date of exercise equal to the option price of the shares being purchased and/or through such other means as the Board determines are consistent with the Plan s purpose and applicable law, including through withholding shares to be acquired upon exercise.

**Repricing Prohibited**

The DEIP prohibits repricing of options without further shareholder approval. Repricing means the grant of a new option in return for the cancellation, exchange or forfeiture of an award that has a higher grant price than the new award, the amendment of an outstanding award to reduce the grant price, the cancellation or repurchase of an option at a time when the grant price is greater than the fair market value of the Common Stock or any action that would be treated, for accounting purposes, as a repricing. The grant of a substitute award under the anti-dilution and adjustment provisions explained under Awards, above, is not a repricing.

**Restricted Stock**

Restricted stock is Common Stock that is issued to a director and is subject to restrictions, which include restrictions upon the sale, assignment, transfer or other disposition of the restricted stock and the requirement of forfeiture of the restricted stock upon termination of service under certain specified conditions. The restriction period applicable to restricted stock is determined by the Board upon grant in its discretion. If a director s service terminates for any reason other than the director s death, disability or retirement, as disability and retirement are defined in the DEIP, prior to vesting, the shares of restricted stock are forfeited. The director will have, with respect to awards of restricted stock, all of the rights of a shareholder of the Company, including the right to vote the restricted stock and the right to receive any dividends on such stock, provided that dividends may be held in escrow and if so would be subject to the same restrictions as applied to the restricted stock.

**Restricted Stock Units**

Restricted stock units are units issued to a director that are subject to restrictions and, upon vesting, are satisfied through the delivery of Common Stock. The restrictions include restrictions upon the sale, assignment, transfer or other disposition of the restricted stock units and the requirement of forfeiture of the restricted stock units upon termination of service under certain specified conditions. The restriction period applicable to restricted stock units is determined by the Board upon grant in its discretion. If a director s service terminates for any reason other than the director s death, disability or

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retirement, as disability and retirement are defined in the DEIP, prior to vesting, the restricted stock units are forfeited. The director is not a shareholder until shares are delivered in satisfaction of the restricted stock units. Dividend equivalents are paid on the restricted stock units, provided that such amounts may be held in escrow and if so would be subject to the same restrictions as applied to the restricted stock.

**Effect of Change in Control**

Notwithstanding any other provision of the DEIP to the contrary, immediately prior to any Change in Control of the Company (as defined in Section 11 of the DEIP), all options and restricted stock units which are then outstanding will become fully vested and, if applicable, exercisable, and all restrictions with respect to shares of restricted stock which are then outstanding will lapse, and such shares will be fully vested and nonforfeitable.

**Possible Anti-Takeover Effect**

The provisions of the DEIP providing for the acceleration of the exercise date of stock options, the vesting of restricted stock units and the lapse of restrictions applicable to restricted stock upon the occurrence of a Change in Control may be considered as having an anti-takeover effect.

**New Plan Benefits**

The actual amount of awards to be received by or allocated to non-employee directors, the only category of participants under the Plan, is not determinable in advance. However, under the predecessor plan, the non-employee directors each received 2,094 shares of restricted stock in 2016.

**Amendment and Termination**

The Board may at any time amend or terminate the DEIP. However, no such action by the Board may terminate any outstanding stock options or restricted stock units granted under the DEIP. Further, the Board may not amend the DEIP without the approval of the Company s shareholders to the extent such approval is required by the rules of any exchange upon which the Common Stock is listed or if approval of the amendment is required to qualify for the exemption provided by Rule 16b-3 of the Securities Exchange Act of 1934.

**Equity Compensation Plans**

The following table provides information about grants under the Company s equity compensation plans as of December 31, 2016.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 1,576,092 | $ 37.63 | 1,508,295* |
| Equity compensation plans not approved by security holders | None | | None |
| Total | 1,576,092 | $ 37.63 | 1,508,295 |

* Includes 1,368,638 shares available for issuance under the Amended and Restated 2016 Management Equity Incentive Plan and 139,657 shares available for issuance under the 2008 Non-Employee Directors Equity Incentive Plan.

**Federal Income Tax Consequences**

The following is a summary of certain material federal income tax consequences with respect to awards that may be granted under to the DEIP under current federal tax laws and certain other tax considerations associated with awards under the DEIP. The summary does not address tax rates or non-U.S., state or local tax consequences, nor does it address employment tax or other federal tax consequences except as noted.

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*Stock Options*. Stock options granted under the DEIP will be non-statutory options (i.e., stock options that are not eligible for incentive stock option treatment under the Internal Revenue Code, referred to herein as the Code ). In general, a director will not be taxed at the time a stock option is granted, but will recognize ordinary income in connection with the exercise of the stock option equal to the excess (at the time of exercise) of the fair market value of the shares acquired upon exercise over the exercise price. A corresponding deduction will generally be available to the Company. Upon a subsequent disposition of the shares purchased, any recognized gain or loss is treated as a capital gain or loss, depending on the director s holding period with respect to the shares purchased.

*Restricted Stock*. In general, a director who has received restricted stock subject to a substantial risk of forfeiture will not recognize income until the risk of forfeiture lapses. When the risk of forfeiture lapses, the director will recognize ordinary income in an amount equal to the excess of the fair market value of the shares at that time over any purchase price paid. However, a director may make an election under Section 83(b) of the Code to be taxed on restricted stock award when it is acquired rather than when the substantial risk of forfeiture lapses. A director who makes an effective 83(b) election will realize ordinary income in an amount equal to the fair market value of the shares as of the time of acquisition less any price paid for the shares. If a director makes an effective 83(b) election, no additional income results by reason of the lapsing of the restrictions. The Company is generally entitled to a deduction at the time that the director is required to recognize ordinary income.

For purposes of determining capital gain or loss on a sale of shares awarded under the DEIP, the holding period in the shares begins when the director realizes taxable income with respect to the transfer of the shares. The director s tax basis in the shares equals the amount paid for the shares plus any income realized with respect to the transfer. If a director makes an effective 83(b) election and later forfeits the shares, the tax loss realized as a result of the forfeiture is limited to the excess of what the director paid for the shares (if anything) over the amount (if any) realized in connection with the forfeiture.

*Restricted Stock Units*. In general, a director who is awarded restricted stock units will not recognize income, and the Company will not be allowed a deduction, at the time the award is made. Instead, the director will generally recognize ordinary income at the time the restricted stock units vest and are settled by delivery of shares of Common Stock, and a corresponding deduction is generally available to the Company.

*Section 409A*. Section 409A of the Code imposes an additional 20% income tax, plus, in some cases, a further income tax in the nature of interest, on nonqualified deferred compensation that does not comply with deferral, payment-timing and other formal and operational requirements specified in Section 409A of the Code and related regulations and that is not exempt from those requirements. Stock options and restricted stock granted under the DEIP are intended to be exempt from Section 409A of the Code. The DEIP gives the Board the flexibility to prescribe terms for awards that are consistent with the requirements of, or an exemption from, Section 409A of the Code.

*Certain Change of Control Payments*. Under Section 280G of the Code, the vesting or accelerated exercisability of stock options or the vesting and payment of other awards in connection with a change of control of a corporation may be required to be valued and taken into account in determining whether participants have received compensatory payments contingent on the change in control in excess of certain limits. If these limits are exceeded, a substantial portion of amounts payable to the participant, including income recognized by reason of the grant, vesting or exercise of awards, may be subject to an additional 20% federal tax and may be non-deductible to the Company.

## BOARD RECOMMENDATION AND REQUIRED VOTE

**PROPOSAL NO. 2: APPROVAL OF THE ADOPTION OF THE MSA SAFETY INCORPORATED**

**2017 NON-EMPLOYEE DIRECTORS EQUITY INCENTIVE PLAN**

**The Board of Directors recommends a vote FOR approval of the 2017 Non-Employee Directors Equity Incentive Plan.** Properly executed proxies timely received in the accompanying form will be so voted, unless otherwise directed thereon. Approval of this proposal requires the affirmative vote of a majority of the votes cast (which excludes abstentions and failures to vote (e.g., broker non-votes)) by the holders of Common Stock present and voting in person or by proxy, with a quorum of a majority of the outstanding shares of Common Stock being present or represented at the Annual Meeting.

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# EXECUTIVE COMPENSATION

## COMPENSATION DISCUSSION AND ANALYSIS

In this section, we will describe the material components of our executive compensation program for our Named Executive Officers, referred to herein as Named Officers, whose compensation is set forth in the 2017 Summary Compensation Table and other compensation tables contained in this Proxy Statement:

- William M. Lambert, Chairman, President and Chief Executive Officer
- Kenneth D. Krause, Vice President, Chief Financial Officer and Treasurer
- Nishan J. Vartanian, Senior Vice President and President, MSA Americas
- Ronald N. Herring, Jr., Senior Vice President and President, MSA International
- Douglas K. McClaine, Senior Vice President, Secretary and Chief Legal Officer

We will also provide an overview of our executive compensation philosophy and our executive compensation program. In addition, we explain how and why the Compensation Committee of the Board (the Committee ) arrives at specific compensation policies and decisions involving the Named Officers. These programs and processes are driven by the Committee s desire to continually increase shareholder value while assuring sound corporate governance, transparency and alignment with MSA s Vision and Values.

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

**EXECUTIVE SUMMARY**

***Our Business***

We are a global manufacturing business with approximately $1.150 billion of revenues from continuing operations in 2016, with operations in North America, South America, Asia, Europe, Middle East, Australia and South Africa. We manufacture and market a wide array of personal protective equipment, including self-contained breathing apparatus ( SCBA ), fixed gas and flame detection systems, portable gas detection instruments, industrial head protection, fire and rescue helmets, fall protection devices and various other safety related products.

The primary goal of the Company is to increase shareholder value over the long-term. We believe that this is best accomplished by achieving our vision to be the world s leading provider of safety solutions that protect workers when life is on the line; continually improving our financial performance; and maintaining a productive, diverse, and motivated work force. The role of our management and Board is to develop and implement effective long-range strategic plans and annual operating plans to achieve these goals. Compensation programs and performance-based incentives are designed to target the median market compensation for executives when these plans are met, above median compensation when they are exceeded, and below median compensation when they are not met.

For fiscal year 2016, reported revenues were $1.150 billion, increasing 2% from 2015 on a reported basis and increasing 4% in constant currency, reflecting a 2% foreign currency translation headwind related to the stronger U.S. dollar. Constant currency revenue from the Company s core product lines increased 6%, driven largely by Latchways products. Net income from continuing operations was $92.7 million compared to $69.6 million in 2015.

***2016 Executive Compensation Overview***

The Committee has developed executive compensation programs comprised of three primary components: salary, performance-related annual incentives, and equity grants which are also largely performance related. In establishing the performance metrics for the 2016 annual incentive, the Committee recognized that MSA would have to continue navigating a challenging economic environment with significant cost reductions, investments in restructuring worldwide, and investments in select strategic initiatives and new product development. The 2016 business plan was designed to position the Company to grow and enter 2017 in a stronger cost competitive position for the years ahead.

The Company had several key areas of focus in 2016 including:

- Financial performance goals

Regional business transformation goals

Value creation initiatives focused on better aligning cost structures

Expanding and improving the MSA Customer Experience

The above areas of focus correlate with the Named Officers performance metrics within the cash incentive plan and contribute to driving working capital, operating profits and consolidated net income. Demonstrating the strong correlation between the Company s performance incentive plans and actual results, our Named Officers earned cash incentive awards pursuant to our annual incentive program, ranging between 123% and 135% of target.

To emphasize the importance of pay-for-performance in our compensation philosophy and our Company s culture, the Company s incentive arrangements are based on the achievement of specific performance goals that support our business strategy. Our annual incentive program focuses on achieving key performance metrics such as those mentioned above. Our long-term incentive program includes stock options, time-vesting restricted stock, time-vesting restricted stock units and performance stock units. Stock options reward for increases in our share price. Our performance stock unit program metrics are operating margin percentage and revenue growth modified by total shareholder return ( TSR ) compared to our peer group. Time-vesting restricted stock and restricted stock units vest after three years of continued employment, providing the

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

Company with a valuable retention incentive and alignment with shareholders rewards for increases in stock price. Grants made in 2015 and 2016 have increased in value and remain unvested, thereby providing the Company with important retention benefits.

During 2016, the Committee reviewed the design and administration of all executive compensation programs to ensure that those programs continue to meet our performance requirements, deliver on our Core Principles, and do not promote unnecessary risk-taking. The Committee also reviewed policies such as stock ownership and retention requirements, and compensation recoupment. In addition, long-term incentive vesting provisions, capped incentive awards, and an emphasis on team-based metrics serve to mitigate risk. As a result, the Committee concluded that the Company s compensation programs effectively accomplish their intended goals, and do not promote unwanted risk taking that could be detrimental to the Company.

At the annual shareholders meeting in May 2016, the executive compensation of the Company s Named Officers was approved by our shareholders, with 99.1% of the votes cast voting in favor of the proposal. The Committee considered this vote in connection with its determination of compensation policies and decisions and has concluded that the Company will maintain its existing compensation philosophy for 2017.

***Philosophy and Objectives of the Executive Compensation Program***

The objectives of MSA s executive compensation programs, which cover not only the five Named Officers in the Summary Compensation Table, but all officers of the Company, are to improve shareholder value over the long-term by attracting, retaining and motivating superior executive talent who will drive robust financial and operational performance and enable the Company to achieve its goals. Our program is guided by a philosophy that strives to align target compensation at the middle ($50^{th}$ percentile) of the market for total direct compensation. Elements of total direct compensation include salary, performance-based cash, equity incentives and benefits. Our program is designed to provide an above-market compensation opportunity for performance exceeding annual budget and peer group norms. We believe that this philosophy enables the Company to attract and retain superior executive talent by providing the opportunity to work in a highly ethical, growing and team-oriented company.

The design of our compensation programs is driven by the following Core Principles which support our objectives:

| CORE PRINCIPLES | OBJECTIVE |
|---|---|
| Executive compensation should be aligned to the achievement of corporate goals and objectives and provide line of sight to annual and long-term corporate strategies without promoting unacceptable levels of risk to the Company. | Improve shareholder value |
| A significant portion of an executive s compensation should be performance-based and should hold executives accountable for the achievement of corporate objectives and increases in shareholder value. | Improve shareholder value |
| | Improve |

| | |
|---|---|
| The compensation program should promote an ownership culture through the use of stock-based compensation and ownership guidelines that clearly define expected levels of ownership in MSA s stock. | shareholder value |
| The compensation program should reward each executive s individual performance and unique responsibilities while assuring a fair and competitive approach. | Attract, retain<br><br>and motivate<br><br>superior talent |
| The compensation program should recognize and reward an executive s loyalty and tenure with the Company by providing financial security following retirement. | Attract, retain<br><br>and motivate<br><br>superior talent |

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

***Components of Executive Compensation Program***

Building on these core principles, our executive compensation program contains both cash and stock-based components designed to meet specific objectives of the Committee. The Committee considers both annual and long-term Company goals and strives to develop incentives that motivate executives to achieve these goals. Cash payments are provided through an executive s base salary and a performance-based annual incentive. Company stock is provided through the use of stock options, time-vesting restricted stock units and performance based stock units. The Committee has chosen to align its cash incentive programs with the achievement of annual internal financial and strategic goals, and its performance based stock units with long-term internal goals based on operating margin percentage and revenue growth modified by total shareholder return (TSR) performance relative to peers.

Executives participate in a retirement plan that provides for post-employment financial security, and some executives are provided with a limited number of perquisites (company car, financial counseling, and limited club memberships for business use) that the Committee believes serve a business purpose, are common in the market and are of modest cost to the Company. Executives also participate in a severance plan that provides certain benefits to executives should their jobs be terminated following a change in control of the Company. The specific rationale for why the Committee has chosen to provide each element of compensation is as follows:

| COMPENSATION COMPONENT | KEY CHARACTERISTICS | PURPOSE | PRINCIPAL 2016 ACTIONS |
|---|---|---|---|
| Base Salary | Fixed cash compensation component. Reviewed annually and adjusted, if and when appropriate. | Intended to compensate an officer fairly for the responsibility level of the position held. | Base salary increases for Named Officers in 2016 ranged from 2.25% to 3.5% based on the 2015 performance year and individual performance review, and where the executive fell with respect to market median. |
| Annual Incentive Awards | Variable cash compensation component. Payable based on corporate and business unit performance. | Intended to motivate and reward officers for achieving our annual business objectives that drive overall performance. | The Named Officers received annual incentive awards in 2017 for 2016 performance ranging from $240,237 to $980,393 and 123% to 135% of target. |
| Long-Term Incentive Awards | Variable stock component. Actual amounts earned vary based on corporate and share price performance. | Intended to motivate officers to achieve our longer term business objectives by tying incentives to the performance of our Common Stock over the long-term; and to reinforce the link between the interests of our officers and our shareholders. | The Named Officers received long-term incentive awards in March 2016 with grant date values ranging from $335,206 to $1,915,200. |
| Health and Welfare Plans and Retirement Plans | Fixed compensation component. | Intended to provide benefits that promote employee health and support employees in attaining financial security. | Effective January 1, 2016, the Company implemented a high deductible health plan for all U.S. employees as a full replacement for previous preferred provider plans. |
| Perquisites and Other Personal Benefits | Fixed compensation component. | Intended to provide a business-related benefit to our Company, and to assist in attracting and retaining officers. | No changes to programs in 2016 that affected Named Officers. |
| Post Employment | Fixed compensation component. | | |

| | | |
|---|---|---|
| Compensation | Intended to provide temporary income following an officer s involuntary termination of employment and, in the case of a change of control, to also provide continuity of management. | No changes to programs in 2016 that affected Named Officers. |

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

The Committee believes that these components, taken as a whole, provide an attractive compensation package that aligns with the Company s annual and long-term goals and enables the Company to attract, retain and motivate superior executive talent. As a means of mitigating risk, the Committee has adopted policies such as share ownership and retention guidelines, which require executives to maintain a certain level of ownership of MSA stock, and a compensation recoupment policy that provides the Committee with the ability to recoup certain awards previously paid or earned based on financial results that were later restated downward, and discretionary authority held by the Committee that allows modification of any payouts from any plan, in the event of any other misconduct that causes financial harm to the Company.

*Performance-Based Incentives.* The Committee believes that a significant portion of a Named Officer s compensation should be delivered through performance-based incentive compensation components. The Committee has identified meaningful financial and shareholder performance objectives that align with the business, are measurable, and are used by management on a day-to-day basis to pursue its business strategy. The Committee has chosen the following measures for use in the Company s incentive arrangements that support and align with the Company s business strategy:

| PERFORMANCE MEASURE | ANNUAL CASH INCENTIVE PLAN | LONG-TERM INCENTIVE PLAN | RATIONALE FOR USE |
|---|---|---|---|
| Stock Price | | X | Indicator of shareholder value creation |
| Total Shareholder Return (TSR) | | X | Indicator of shareholder value creation |
| Revenue Growth | | X | Encourages both organic sales growth and sales growth by acquisition |
| Net Income | X | | Encourages bottom-line profitability |
| Operating Margin Percentage | X | X | Encourages operating profitability and expense management |
| Gross Profit Margin Percentage | X | | Promotes process efficiency |
| Net Sales Latchways | X | | Encourages activities to promote the success of a critical acquisition |
| Working Capital as a Percentage of Sales | X | | Encourages activities that increase the cash available for dividends, investment in the business and debt repayment |

In summary, the Committee believes that the best way to reward executives is to combine a program of cash incentives (based on annual financial performance goals) with stock incentives (based on increases in the Company s stock price and, in part, on performance versus long-term financial performance metrics).

The Company s incentive plans (annual and long-term) are targeted to reward executives at the middle (50th percentile) of the market for achieving expected or targeted performance levels. For example, our annual incentive plan is designed to pay above the targeted level and, therefore, above the middle of the market if the Company s performance exceeds our goals and expectations, up to a cap upon maximum performance. If the Company s performance falls below our goals and expectations, the annual incentive plan is designed to pay below the targeted level. If actual performance falls below a certain threshold level, our annual incentive plan is designed to pay nothing. This variable aspect of our annual incentive arrangement is also present in our long-term incentive plan. For instance, we use stock options in our long-term incentive plan such that if the stock price falls below the exercise price they are of no value to the executive. Grants made in 2014, 2015, and 2016 were made at grant prices that until recently were above the Company s Common Stock price, and thus such stock options had no value absent an increase in the price of the Company s Common Stock. The Company s stock value has increased, creating value in such grants. The

2015 and 2016 grants remain unvested, thereby providing the Company with important retention benefits. Our performance based stock units incorporate a performance threshold below which no payments are made.

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

The following table shows the allocation of performance-based versus fixed compensation components for our Named Officers at targeted levels as of the end of 2016:

**PERCENT OF COMPENSATION AT RISK**

| Named Officer | Performance-Based (1) | Fixed (2) |
|---|---|---|
| William M. Lambert | 76.9% | 23.1% |
| Kenneth D. Krause | 54.2% | 45.8% |
| Nishan J. Vartanian | 60.6% | 39.4% |
| Ronald N. Herring, Jr. | 60.8% | 39.2% |
| Douglas K. McClaine | 58.7% | 41.3% |

(1) Based on the target value of 2016 non-equity incentive award as of December 31, 2016, plus the target equity award allocation of equity instruments to options and performance units as of December 31, 2016.

(2) Based on annual base salary as of December 31, 2016 plus the target equity award as of December 31, 2016 and the allocation of equity instruments to time vested restricted units. Time vested restricted units are included in the fixed column because there are no performance conditions to vesting (other than continued employment), but unlike base salary, the ultimate value of restricted stock is inherently performance based.

**COMPENSATION OVERSIGHT PROCESS**

*Role of the Committee.* The Committee has responsibility for the oversight and decision-making regarding executive compensation except for Chief Executive Officer ( CEO ) compensation, which is recommended by the Committee but approved by the independent directors as described below. The Committee has engaged an outside compensation consultant, Pay Governance, LLC to provide assistance and guidance on compensation issues. The consultant provides management and the Committee with relevant information pertaining to market compensation levels, alternative compensation plan designs, market trends and best practices. Pay Governance is considered to be independent by the Committee. During 2016 the consultant provided only executive compensation consulting services to the Committee and consulting services to the Nominating and Corporate Governance Committee with respect to director compensation. Further, the Committee has not discovered any conflicts of interest that were raised by the work of the consultant involved in determining or recommending executive compensation.

At its meetings, the Committee regularly holds executive sessions, which exclude management and, subject to the Committee s desire, may include its independent consultant. Management assists in the coordination and preparation of the meeting agenda and materials for each meeting, which are reviewed and approved by the Committee Chairman. Meeting materials are mailed to Committee members for review approximately one week in advance of each meeting. The Committee met three times in 2016 and held an executive session, which excluded members of management, at all of the meetings.

For the CEO s compensation, the Committee develops proposals and presents them to the full Board s independent directors for their approval. Compensation decisions regarding all other officers are approved by the Committee. The Committee considers the recommendations of the CEO when making compensation decisions regarding all other officers.

*Role of the Compensation Consultant.* The Committee has retained Pay Governance, LLC as its executive compensation consultant. The compensation consultant reports directly to the Committee and the Committee may replace the compensation consultant or hire additional consultants at any time. The compensation consultant attends meetings of the Committee, as requested, and communicates with the Committee Chairman between meetings; however, the Committee makes all decisions regarding the compensation of our officers.

The compensation consultant provides various executive compensation services to the Committee pursuant to a written consulting agreement approved by the Committee Chairman. Generally, these services include advising the Committee on

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

the principal aspects of our executive compensation program and evolving industry practices, and providing market information and analysis regarding the competitiveness of our program design and our award values in relationship to performance.

During 2016, the compensation consultant performed the following specific services for the Committee:

- Provided presentations on executive compensation trends and external developments.
- Provided an annual competitive evaluation of total compensation for the Named Officers, as well as our overall compensation program.
- Provided recommendation on all officers total compensation.
- Reviewed Committee agendas and supporting materials in advance of each meeting, and raised questions/issues with management and the Committee Chairman, as appropriate.
- Reviewed drafts and commented on the compensation discussion and analysis for the proxy statement and the related compensation tables.

In addition, the compensation consultant attended meetings of the Committee during 2016 as requested by the Committee Chairman.

The Committee retains sole authority to hire the compensation consultant, approve its annual fees, determine the nature and scope of its services, evaluate its performance, approve all invoices for payment of services and terminate its engagement.

*Use of Competitive Data.* The Committee reviews data related to compensation levels and programs of other companies prior to making its decisions. The Committee engages its consultant to perform a comprehensive assessment of compensation levels provided to executives among a peer group of companies. These companies are selected based on the following criteria:

- Annual revenues that range from approximately half to double our annual revenues (approximately $500 million to $2 billion in 2016)
- Manufacturing processes similar to various MSA industry sectors and technologies
- Global operations and customer base

For 2016, the peer group consisted of the following 22 companies:

| | | |
|---|---|---|
| Actuant Corporation | FLIR Systems | MKS Instruments, Inc. |
| Albany International Corp. | Gentex Corp | Masimo Corporation |
| Brady Corp. | Graco, Inc. | Nordson Corp. |
| Checkpoint Systems Inc. | IDEX Corporation | PerkinElmer Inc. |
| CLARCOR Inc. | Invacare Corp | Simpson Manufacturing Co. Inc. |
| ESCO Technologies Inc. | Littelfuse, Inc. | Standex International Corp. |
| Federal Signal Corp | Matthews International Corp. | STERIS Corp. |
| | | Waters Corporation |

The Committee re-assesses the peer group composition annually and may periodically make changes, usually by adding companies that may better meet our selection criteria or by removing companies that may have experienced change, such as acquisition, or no longer fit our selection criteria. In 2016, the Committee, through its consultant, conducted a review of the peer companies which resulted in the conclusion that, for 2017, the peer group set forth above was well aligned and should not be changed, other than the removal of Checkpoint Systems, Inc. from the peer group due to the acquisition of

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

Checkpoint Systems by CCL Industries, and the removal of CLARCOR Inc. from the peer group due to the acquisition of CLARCOR by Parker Hannifin Corporation.

The consultant conducts an annual analysis of the most recent proxy disclosures for the peer group companies in order to understand the compensation ranges for base salary, and the annual and long-term incentives provided to the peer group named executive officers. In addition, regression analysis is applied to data from compensation surveys conducted by Willis Towers Watson representing nearly 1,000 general industry companies. The Committee believes that the combination of these comprehensive data sources allows it to understand the market compensation ranges for both the Named Officers and positions below the Named Officers based on the duties and responsibilities of each position and to determine the level of compensation needed to target the middle ($50^{th}$ percentile) of the market.

The market compensation data is further used to develop a market compensation structure which includes salary grades with midpoints. Each executive is assigned to a salary grade where the midpoint of the grade approximates the median ($50^{th}$ percentile) of the market salary level for that position. Each salary grade has a salary range around the midpoint and has corresponding annual and long-term incentive award opportunities that are percentages of the midpoint, and which also align to market based values. In assigning an executive to a salary grade, the Committee also considers internal factors that may, in a limited number of instances, impact the grade assignment of an executive.

In addition to the market data, the Committee considers the following factors when making compensation decisions:

- Individual and Company performance
- Experience in the position
- Current compensation relative to market median

An assessment of these factors could result in actual compensation being positioned modestly above or below the desired middle ($50^{th}$ percentile) of the market positioning. The Committee does not consider amounts earned from prior performance-based compensation, such as prior bonus awards or realized or unrealized stock option gains, in its decisions to increase or decrease compensation for the following year. The Committee believes that this would not be in the best interest of retaining and motivating executives.

In order to assess the impact of its executive compensation decisions, the Committee reviews a summary report or tally sheet of total compensation prepared for the CEO. The tally sheet includes the total dollar value of annual compensation, including salary, annual and long-term incentive awards, annual increase in retirement accruals and the value of other benefits and perquisites. The tally sheet also provides the Committee information pertaining to equity ownership, future retirement benefits, and benefits the Company is required to provide to the CEO under various termination scenarios. The Committee s review of the tally sheet information is an integral part of its decision making process each year.

**DETERMINATION OF EXECUTIVE COMPENSATION AMOUNTS**

*Fixed Cash Base Salary.* The Company provides executives with a base salary in order to attract and retain executive talent. Base salary is designed to be competitive with other organizations and is sensitive to the skill level, responsibility and experience of the executive. Base salary for each executive is determined through our external benchmarking process and an internal comparison to other executives at the Company to ensure internal equity. Base salary levels are targeted to the middle ($50^{th}$ percentile) of the market, although the Committee considers base salary levels that fall within plus or minus 10% of the market median to be competitive.

Base salary adjustments are considered and are affected by each executive s individual performance assessment based on a rigorous performance review process. This individual process details an executive s annual accomplishments compared to performance expectations established at the outset of each year, and also assesses the individual s behaviors used to achieve the performance level. The CEO develops and recommends to the Committee annual base salary adjustments for each executive primarily by evaluating the value and impact that each executive has had on the Company s performance during the year.

COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

The Committee performs a similar comprehensive evaluation of the CEO s performance against pre-determined annual operational and strategic goals previously approved by the independent directors of the Board, and determines his recommended annual base salary increase based on the outcome of this evaluation. This salary recommendation is then also approved by the independent directors. At its February 2016 meeting, the Committee approved salary increases ranging from 2.25% to 3.5% for the Named Officers. Following these adjustments, salary levels were positioned as follows relative to the market median targeted level: Mr. Lambert 3.8% above median, Mr. Krause, 28.0% below median, Mr. Vartanian 3.0% below median, Mr. Herring 6.5% above median and Mr. McClaine 6.2% above median. Mr. Krause is new in his role and had additional salary adjustments in December 2016 as part of a multi-year plan to bring his salary to market median. As a result, Mr. Krause is now 10% below median.

*Performance-Based Annual Cash Incentive.* The Company provides executives with an annual cash incentive based on (a) the MSA Non-CEO Executive Incentive Plan (NCEIP), which directly rewards the accomplishment of key corporate and/or geographical or business unit performance goals, and (b) the CEO Annual Incentive Award Plan (AIAP) which has been approved by shareholders and is administered within the requirements necessary to attempt to retain the tax deductibility of the CEO s annual incentive award under Section 162(m) of the Internal Revenue Code. Additionally, each executive, including the CEO, is eligible for a program known as the Enhanced Bonus that rewards participants only when the Company s actual consolidated net income exceeds pre-set board-approved targets. Under the Enhanced Bonus feature, annual incentive awards earned under the NCEIP or AIAP, which are each limited to a maximum payout of 150% of target, may be increased from 0% to 50% if the Company s consolidated net income exceeds the target. The enhancement is interpolated at performance levels between target and 125% of target. For each 1% increase in actual consolidated net income above target, earned awards under the NCEIP and AIAP are increased by 2%. For example, at performance of 105% of net income target, the incentive is increased by 10%. The incentive is increased by 50% if the Company exceeds the net income target by 25% or more, resulting in a total bonus opportunity which is capped at 200% of target should performance achieve or exceed maximum levels. The Committee believes that the increased performance leverage that the Enhanced Bonus is designed to provide is in the best interests of our shareholders by motivating our senior management to exceed bottom line profitability targets in addition to important Company and business unit performance metrics.

The following chart illustrates how the enhanced bonus feature rewards performance that exceeds targets under the NCEIP and AIAP, thereby assuring that executive reward is aligned to shareholder value. The Example of Highly Leveraged Plan in the chart is based upon Pay Governance, LLC research. The Committee limits the total possible payout to 200% of the target for 2017.

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

Under the NCEIP and AIAP, the target incentive opportunity (paid for achieving target performance) for each Named Officer is aligned with the executive s salary grade midpoint which approximates the middle (50th percentile) of the market as determined through our external benchmarking process, although the Committee generally considers target incentive opportunities between plus or minus 10 percentage points of the market median to be competitive. If actual performance drops below 70% of the performance target, payout drops to zero.

The following table shows the percent of salary midpoint and dollar amount of incentive that would be earned if actual performance for 2016 was equal to targeted performance.

**2016 TARGET CASH INCENTIVE AWARD**

| Named Officer | Percent of Salary Midpoint (1) | NCEIP/AIAP Target Award (2) |
|---|---|---|
| William M. Lambert | 100% | $798,000 |
| Kenneth D. Krause | 65% | $242,093 |
| Nishan J. Vartanian | 60% | $223,470 |
| Ronald N. Herring, Jr. | 60% | $223,470 |
| Douglas K. McClaine | 50% | $186,225 |

(1) Percent of salary midpoint is the percent multiplied by the executive s salary grade midpoint using the target award as of December 31, 2016. The target awards shown above reflect 2016 midpoints as of December 31, 2016.

(2) Target award is the amount that would be paid to the executive assuming all Company and individual performance goals are met per that executive s performance metrics based upon targets and midpoints as of December 31, 2016.

Actual NCEIP award payments are based primarily on the achievement of a variety of Company financial and non-financial goals, but also have a discretionary personal performance multiplier applied based on the value and impact that each executive has had on the Company s performance during the year. When making his recommendations for the 2016 discretionary personal performance multiplier, the CEO may increase the calculated NCEIP bonus amount by up to 10% based on performance relative to the pre-established individual goals that fall within the responsibility of each individual executive.

Actual AIAP award payments for the CEO for 2016 were based 20% on achievement of adjusted consolidated net income, as approved by the Committee at the beginning of 2016, 20% on achievement of consolidated operating margin percentage, 20% on achievement of consolidated CSPI (Customer Satisfaction Performance Index), 20% on achievement of consolidated working capital as a percentage of sales, and 20% on achievement of consolidated net sales of Latchways products, all relative to the pre-determined goals established and approved by the Committee. The Committee also recommends for Board approval annual operational and strategic goals for the CEO. The independent directors of the Committee may use their discretion to reduce the size of the CEO s calculated award based on his performance relative to his individual goals, but may not increase it. This is necessary to retain deductibility under Internal Revenue Code Section 162(m).

If performance is below minimum threshold level the payout goes to zero. In addition to these opportunities, the Enhanced Bonus feature may add up to 50% to the calculated NCEIP or AIAP award depending on the level of consolidated net income performance above target. The maximum award opportunity under all plans combined is 200% of target for each executive including the CEO. Actual awards paid for 2016 performance are included in the *Summary Compensation Table* on page 39 under the column *Non-Equity Incentive Plan Compensation*. Award opportunities for each Named Officer under the combined plans for 2016 at threshold, target and maximum are included in the *Grants of Plan-Based Awards* table on page 40 under the columns *Estimated Possible Payouts Under Non-Equity Incentive Plan Awards*.

Beginning in 2016, Consolidated Working Capital as a Percentage of Sales was introduced as a new metric to replace free cash flow. This revised metric eliminates accounting related transactions such as accruals and prepaid items, with respect to which management can exercise little control, yet retains accountability for balance sheet items such as inventories, accounts

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

receivable and accounts payable. All officers also have an additional metric based on sales from the Company s recent acquisition of Latchways plc. The successful integration of Latchways into the Company s fall protection business was an important business objective for 2016. In 2017 the Latchways revenue metric will be expanded to include all of the fall protection product line. This is being done to increase emphasis on the product line in which the Company sees the most opportunity for organic growth.

In 2016, performance measures and goals were approved by the Committee at its March meeting. For the CEO and the other Named Officers, the Committee and, in the case of the CEO, independent directors of the Board, approved the following performance targets:

**PERFORMANCE TARGETS FOR ANNUAL CASH INCENTIVE**

**Chairman, President and Chief Executive Officer William M. Lambert**

(Dollars in millions)

| Performance Measure | Weighting | 2016 Actual Performance | Pre-Established 2016 Annual Incentive Goals Threshold | Target | Maximum |
|---|---|---|---|---|---|
| Consolidated Net Income[1] | 20.00% | $94.2 | $65.0 | $92.8 | $120.6 |
| Consolidated Operating Margin% | 20.00% | 15.1% | 11.5% | 14.4% | 17.3% |
| Consolidated CSPI | 20.00% | 67.3 | 53.3 | 59.2 | 65.1 |
| Consolidated Working Capital as a % of Sales | 20.00% | 22.2% | 38.5% | 29.6% | 20.7% |
| Consolidated Net Sales Latchways[2] | 20.00% | $64.3 | $53.4 | $66.8 | $80.2 |

Note: As a result of 2016 performance, 123% of target incentive was earned for 2016.

**Vice President, Chief Financial Officer and Treasurer Kenneth D. Krause**

(Dollars in millions)

| Performance Measure | Weighting | 2016 Actual Performance | Pre-Established 2016 Annual Incentive Goals Threshold | Target | Maximum |
|---|---|---|---|---|---|
| Consolidated Net Income[1] | 20.00% | $94.2 | $65.0 | $92.8 | $120.6 |
| Consolidated Operating Margin % | 20.00% | 15.1% | 11.5% | 14.4% | 17.3% |
| Consolidated CSPI | 20.00% | 67.3 | 53.3 | 59.2 | 65.1 |
| Consolidated Working Capital as a % of Sales | 20.00% | 22.2% | 38.5% | 29.6% | 20.7% |
| Consolidated Net Sales Latchways[2] | 20.00% | $64.3 | $53.4 | $66.8 | $80.2 |

Note: As a result of 2016 performance, 135% of target incentive was earned for 2016 which included a 10% personal performance factor due to exceeding milestone expectations of transition to CFO, driving improved and expanded investor relations outreach, and implementing improved decision analytics and stronger cost structure realignment.

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

**Senior Vice President and President, MSA Americas    Nishan J. Vartanian**

(Dollars in millions)

| Performance Measure | Weighting | 2016 Actual Performance | Pre-Established 2016 Annual Incentive Goals | | |
|---|---|---|---|---|---|
| | | | Threshold | Target | Maximum |
| Consolidated Net Income[1] | 20.00% | $94.2 | $65.0 | $92.8 | $120.6 |
| Operating Margin %    Americas Segment[2] | 20.00% | 29.3% | 23.2% | 29.0% | 34.8% |
| Consolidated CSPI | 20.00% | 67.3 | 53.3 | 59.2 | 65.1 |
| Consolidated Working Capital as a % of Sales | 20.00% | 22.2% | 38.5% | 29.6% | 20.7% |
| Net Sales    Latchways    Americas Segment[2] | 20.00% | $10.9 | $10.6 | $13.3 | $16.0 |

Note: As a result of 2016 performance, 125% of target incentive was earned for 2016 which included a 10% personal performance factor due to exceeding business unit financial plan and targets, and restructuring geographic operations to facilitate cost efficiencies and driving strong market share gains in key markets.

**Senior Vice President and President, MSA International    Ronald N. Herring, Jr.**

(Dollars in millions)

| Performance Measure | Weighting | 2016 Actual Performance | Pre-Established 2016 Annual Incentive Goals | | |
|---|---|---|---|---|---|
| | | | Threshold | Target | Maximum |
| Consolidated Net Income[1] | 20.00% | $94.2 | $65.0 | $92.8 | $120.6 |
| Operating Margin %    International Segment[2] | 20.00% | 16.4% | 13.0% | 16.2% | 19.4% |
| Consolidated CSPI | 20.00% | 67.3 | 53.3 | 59.2 | 65.1 |
| Consolidated Working Capital as a % of Sales | 20.00% | 22.2% | 38.5% | 29.6% | 20.7% |
| Net Sales    Latchways    International Segment[2] | 20.00% | $53.3 | $42.7 | $53.4 | $64.1 |

Note: As a result of 2016 performance, 135% of target incentive was earned for 2016 which included a 10% personal performance factor due to responsiveness in addressing changes in the oil and gas markets, particularly in the Middle East, exceeding planned performance of the Principal Operating Company in Europe, and developing and executing restructuring within MSA Japan, India and South Africa operations.

**Senior Vice President, Secretary and Chief Legal Officer    Douglas K. McClaine**

(Dollars in millions)

| Performance Measure | Weighting | 2016 Actual Performance | Pre-Established 2016 Annual Incentive Goals | | |
|---|---|---|---|---|---|
| | | | Threshold | Target | Maximum |
| Consolidated Net Income[1] | 20.00% | $94.2 | $65.0 | $92.8 | $120.6 |
| Consolidated Operating Margin % | 20.00% | 15.1% | 11.5% | 14.4% | 17.3% |
| Consolidated CSPI | 20.00% | 67.3 | 53.3 | 59.2 | 65.1 |

| | | | | | |
|---|---|---|---|---|---|
| Consolidated Working Capital as a % of Sales | 20.00% | 22.2% | 38.5% | 29.6% | 20.7% |
| Consolidated Net Sales Latchways[2] | 20.00% | $64.3 | $53.4 | $66.8 | $80.2 |

Note: As a result of 2016 performance, 135% of target incentive was earned for 2016 which included a 10% personal performance factor due to exceeding expectations within insurance receivable recovery efforts, successful outcomes of various litigation activities and challenges, and efficient and below budget external litigation costs.

[1] Consolidated Net Income from continuing operations of $92.7 million plus $2.2 million in costs for unplanned acquisitions and divestitures, restructuring, unplanned pension expense and asset sales not made in the ordinary course of business added back to Net Income and $3.6 million for removal of translational foreign currency adjustment, per terms approved by the Compensation Committee at the beginning of the year.

[2] For geographic business metrics and consolidated Latchways metrics, currency-adjusted actual results will be used to compute the annual incentive payment.

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

The Committee chose consolidated net income as the primary corporate performance goal for 2016 for all Named Officers. Certain of the Named Officers are also measured by other performance goals appropriate to their job duties. The Committee believes that these measures are the best indicators of performance produced as a result of our executives efforts and is reflective of their individual areas of responsibility.

*Long-Term Incentive Compensation*. Our long-term incentive program represents a significant portion of an executive s total compensation package. Awards under this program are considered at risk, which means they can increase or decrease in value based on fluctuations in our stock price. In selecting the appropriate long-term incentive vehicles, the Committee made its decisions based on its desire to reward for long-term stock price appreciation, to promote loyalty and tenure with the Company and to increase executives alignment with shareholders. Stock options, time-vesting restricted stock units and performance stock units were chosen to meet these attributes. These awards are granted under the shareholder-approved 2008 Management Equity Incentive Plan. In 2016 the mix was 50% stock options and 50% performance stock units for officers who have reached retirement eligibility and had achieved their ownership and retention guidelines. This particular mix of awards positions these retirement-eligible officers to have more equity at risk and provides better alignment to performance. For officers who have achieved their ownership and retention guidelines but who have not yet reached retirement eligibility, and for officers who have reached retirement eligibility but have not yet reached their ownership guidelines, the mix is 40% stock options, 40% performance stock units and 20% time-vesting restricted stock units. For other officers, the mix is one-third stock options, one-third time-vesting restricted stock units and one-third performance stock units, recognizing the need to have a greater portion of equity compensation delivered in restricted stock units.

The following table illustrates the calculation and allocation of the long-term incentive compensation. This table and the table of Grants of Plan-Based Awards use the amounts computed in accordance with FASB ASC Topic 718.

**LONG-TERM INCENTIVE COMPENSATION**

| | | | Allocated to | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1/1/2016 Salary Midpoint[1] | 2016 Stock Multiplier[2] | Stock Options | Restricted Stock Units | Performance Stock Units | Option Award Value[3] | Restricted Stock Units Award Value[4] | Performance Stock Units Award Value[5] |
| | (1) | (2) | (3) | (4) | (5) | (1) x (3) | (1) x (4) | (1) x (5) |
| William M. Lambert | $798,000 | 240% | 120.00% | 0.00% | 120.00% | $957,600 | $0 | $957,600 |
| Kenneth D. Krause | $372,450 | 100% | 33.33% | 33.33% | 33.33% | $124,150 | $124,150 | $124,150 |
| Kenneth D. Krause[6] | | | | | | | $750,000 | |
| Nishan J. Vartanian | $372,450 | 100% | 40.00% | 20.00% | 40.00% | $148,980 | $74,491 | $148,980 |
| Ronald N. Herring, Jr. | $372,450 | 100% | 50.00% | 0.00% | 50.00% | $186,225 | $0 | $186,225 |
| Douglas K. McClaine | $372,450 | 90% | 45.00% | 0.00% | 45.00% | $167,603 | $0 | $167,603 |

1 Reflects salary midpoint at the time of the award in March 2016.

2 Stock multiplier is the plan percentage effective in March 2016. Columns 3, 4 and 5 percentages reflect the split of the stock multiplier into options, restricted stock units and performance stock units in accordance with the discussion above.

[3] Actual Stock Options awarded = Option Award Value divided by the Black-Scholes option value on the date of the award. Actual amount may vary due to rounding to nearest share value.

[4] Actual Restricted Stock Units awarded = Restricted Stock Units Award Value divided by the closing stock price on the date of the award. Actual amount may vary due to rounding to nearest share value.

[5] Actual Performance Stock Units awarded = Performance Stock Units Award Value divided by the closing stock price on the date of the award. Actual amount may vary due to rounding to nearest share value. Amounts shown in this column may differ from amounts shown in the compensation tables contained in this proxy statement due to differences in the method of calculating fair market value in compensation tables in accordance with FASB ASC Topic 718.

[6] The amount shown for Kenneth D. Krause represents a Restricted Stock Award that he received in December 2016 in the form of a retention grant, in addition to the Long Term Incentive Compensation indicated in the line above.

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

NOTE: A stock multiplier is the percentage of the Named Officer s salary midpoint that is awarded in annual equity grants as long term incentives. Stock multipliers are market based and determined with the assistance of the Committee s outside compensation consultant.

Long-term incentive opportunities are developed for each executive salary grade based on the middle (50th percentile) of the market. While the Committee reviews these long-term incentive opportunities annually, it typically only adjusts the individual opportunities periodically as market median long-term incentive data tends to be volatile, increasing or decreasing for certain positions more frequently than salary or annual incentive data. As a result, each Named Officer s long-term incentive opportunity has been the same for the last several years even though the market has moved up and down over this time frame.

*Stock Option Awards.* Stock options are a performance motivator for executives to increase shareholder value. The Committee has chosen to use stock options because of the alignment they provide with our shareholders and because the value realized by the executive is equal to the increase in our stock price in excess of the option s exercise price. The closing stock price on the date of grant is determined by the later of the date of the Compensation Committee meeting at which the grant was made, or the third business day after the Company s year-end earnings release. Once vested and when exercised, if the stock price is lower than the exercise price set on the original grant date, the option provides no value to the executive.

The Company computes the fair value of each stock option in accordance with FASB ASC Topic 718, and expenses this amount over the vesting period.

The valuation methodology used to calculate the share grants and to calculate the accounting expense is the same. Each option has vesting provisions that require continued employment of the executive thereby promoting the retention of the executive. Stock options vest 100% three years following grant. The options are exercisable after they vest and until they expire, which is generally on the tenth anniversary following the grant date.

Only non-qualified stock options were granted in 2016. The exercise price is 100% of the fair market value on the grant date. The Company no longer issues incentive stock options as, due to the United States alternative minimum tax rules, the benefit of the tax deduction that the Company receives at the time of exercise typically exceeds the tax benefits to the participant that the incentive stock options would provide.

*Performance Stock Units.* The Company uses this type of equity grant to incentivize the achievement of one or more specific goals promoting long-term shareholder value. At the date of grant, a target number of shares is established based on the share value at the time of the award and present dollar value of the compensation intended to be delivered. Ultimately the number of shares awarded at the end of the performance period varies based on the achievement of corporate goals.

The target number of shares will vest if the target performance goals are met. If excellence goals are met, the number of shares vested will be doubled. If only the minimum threshold performance is achieved, one half of the target number of shares will vest. If performance is below threshold, the entire award will be forfeited. At performance levels between threshold, target and excellence, awards will be interpolated. There are no shares issued until the performance goals have been met. Therefore, there are no dividend rights or voting rights associated with this form of long-term incentive until the shares are actually issued upon performance goals being met.

For the grants made in 2014 and 2015, the performance metric for grants of performance stock units is Total Shareholder Return (TSR) compared to the peer group. The performance period is three years. At the end of the first year of the performance period, if the TSR is at or above the $50^{th}$ percentile of the peer group TSR, one fourth of the target number of shares will be issued as time-vesting restricted stock, subject only to forfeiture in the event of termination of employment prior to the end of the three-year performance period. At the end of the second year of the performance period, if the two year cumulative shareholder return is at or above the $50^{th}$ percentile of the peer group, one half of the target shares less any shares earned at the end of the first year will be issued as time-vesting restricted stock, subject only to forfeiture in the event of termination of employment prior to the end of the three-year performance period. At the end of the third year of the performance period, if the three year cumulative TSR is at the 50th percentile of the peer group, the target number of shares will be earned less any shares earned in the previous two years. If the TSR is at or above the 75th percentile of the peer group at the end of the third year, two times the target number of shares will be earned less any shares earned during the first two years of the performance period. If the TSR is below the 25th percentile of the peer group at the end of the third year, no shares will be earned for that period. Also, if the TSR is at or above the 25th percentile but is a negative number, then the maximum number of shares earned is limited to one half of the target shares. However, time-vesting restricted shares that were issued during the first two years of the performance period will not be forfeited and will become vested at the end of the three years based upon the officer s continued employment. For performance between the 25th percentile and the 75th percentile interpolation will be used to determine the actual numbers of shares earned. Effective for the grants made in 2015, the Company substituted time-vesting restricted stock units for time-vesting restricted stock for issuance upon meeting performance tests in the first or second year. The 2014 grant had performance above the 50th percentile in year one and thus 25% of the target shares were earned, but the two year cumulative performance was below the 50th percentile and therefore no additional shares were earned in year two. At the end of the three year period the 2014 grant had performance at the 72.3 percentile which results in a total payout of 189.2% of target. The 2015 grant had performance below the 50th percentile in year one and therefore no shares were earned, but the two-year cumulative performance was above the 50th percentile and therefore 50% of the target shares were earned.

Effective with the 2016 annual equity grants, the long-term performance stock unit incentive award was redesigned. Two new internal financial metrics were used to measure performance and the final results will be modified based on TSR as compared to a peer group. The internal financial goals were based on Operating Margin percentage (weighted at 60%) and Revenue Growth (weighted at 40%). The use of the TSR modifier will align the executives rewards with changing shareholder value. Operating Margin percentage and Revenue Growth will be adjusted based on pre-determined items. There will be no interim shares earned. The performance for the entire grant will be determined at the end of the performance period on December 31, 2018.

At target performance, 100% of the target number of shares will be awarded. At threshold performance, 50% of the target number of shares will be awarded. At the excellence level of performance, 200% of the target number of shares will be awarded. Results between threshold and target; and between target and excellence will be interpolated. Any amount of shares which are determined to be awarded will be further adjusted by the TSR modifier described below.

If MSA s percentile ranking for TSR versus our peer group is at the 40th percentile to the 60th percentile, the TSR modifier will be 1.0. The TSR modifier for a ranking greater than the 60th percentile but less than the 75th percentile will be 1.10. The TSR modifier for a ranking at the 75th percentile or above will be 1.20. The TSR modifier for a ranking greater than the 25th percentile but less than the 40th percentile will be 0.90. The TSR modifier for a ranking at the 25th percentile or below will be 0.80.

The shares related to the 2016 annual equity grants will vest on March 8, 2019 and subject to determination by the Compensation Committee of the actual performance achieved.

*Time-Vesting Restricted Stock Units.* The Committee selected time-vesting restricted stock units in order to create and encourage an ownership culture and to serve as a retention tool. Restricted stock units vest 100% on or about the third anniversary following the date of grant. The value assigned to restricted stock units is the fair market value of the shares of Common Stock to which such restricted stock units relate on the date of grant, and the recipient is charged with income for Federal income tax purposes in the year of vesting at the market value as of the date that the restrictions lapse. The restricted units do not include voting rights or the right to dividends or dividend equivalents during the vesting period.

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

**ADDITIONAL CONSIDERATIONS RELATING TO THE CEO**

In 2016, Mr. Lambert s base pay was adjusted by amounts which conform to the Company s merit increase guidelines for U.S. payroll. The increase for 2016 in Mr. Lambert s salary was 2.5%.

*CEO Pay For Performance.* During 2016, the Committee, with the assistance of its compensation consultant Pay Governance, conducted several analyses to assess the alignment of the CEO s pay relative to the performance of the Company. Company performance was defined as either our total shareholder return (TSR) or a composite of performance metrics. This composite consists of the average ranking relative to our peers of our TSR, Net Income Growth, RONA and Operating Income Margin. These analyses considered the CEO s total direct compensation (TDC) which includes: base salary, actual cash bonus earned and value of equity incentives. Equity incentives were considered using two separate methodologies:

1. **Expected value method:** this method considered the grant date fair value of equity awards and is the same value as stated in our proxy statement summary compensation table.

2. **Realizable compensation method:** this method examines the aggregate value of previously granted equity awards at a point in time, including:
   a. the in-the-money intrinsic value of stock option grants made during the period,
   b. the end of period value of restricted stock grants made during the period, and
   c. for performance awards, the actual payouts for awards beginning and ending during the three-year performance period and the end of period estimated payout for unvested awards granted during the three-year performance period ended December 31, 2015.

During 2016, the Committee reviewed and discussed the results of the following independent analyses and was satisfied that the executive compensation program was aligned with the performance of the Company.

***2015 Relative CEO Pay Ranking versus 2015 Relative TSR Ranking***

This analysis compares our CEO s 2015 TDC compensation using his actual annual cash incentive earned in 2015 (and paid in early 2016) and the *expected value methodology* (described above) for equity awards granted in 2015, all relative to our peer group CEOs TDC compensation valued on the same basis. Our TSR performance for 2015 was also evaluated relative to our peers. The Committee concluded that compensation granted in 2015 to our CEO was reasonably aligned to our 2015 TSR when considered on a relative basis to our peers.

| MSA CEO | MSA 2015 | ALIGNMENT |
|---|---|---|

| 2015 TDC | RELATIVE TSR | |
|---|---|---|
| $23^{rd}$ Percentile | $12^{th}$ Percentile | Reasonable |

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

***2015 CEO Actual Annual Cash Incentive Earned Relative to Peers versus 2015 Composite Performance Relative to Peers***

This analysis compares our CEO s 2015 actual bonus earned (and paid in early 2016) to the composite performance metrics, which are a collection of metrics used in our incentive arrangements. Both the CEO s bonus information and the composite performance results were compared to the same data of our peers and considered on a percentile rank basis. The Committee concluded that the CEO s annual incentive payment, when evaluated in terms of absolute dollar value, was reasonably aligned with the relative performance of the Company.

| 2015 CEO ACTUAL BONUS PAYMENT | BONUS RELATIVE TO PEERS | PERFORMANCE RELATIVE TO PEERS | ALIGNMENT OF BONUS AND PERFORMANCE |
|---|---|---|---|
| Bonus Earned (Dollar Value) | 41st Percentile | 25th Percentile | Reasonable |

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

***2015 CEO Realizable Compensation Relative to Peers versus 2015 Composite Performance Relative to Peers***

This analysis compares our CEO s realizable compensation *(realizable compensation method, described above)* over the three-year period 2013 through 2015 relative to the composite performance metrics, which are a collection of metrics used in our incentive arrangements. Both the CEO s realizable compensation information and the composite performance results were compared to the same data of our peers and considered on a percentile rank basis. The Committee concluded that the CEO s three-year realizable compensation, when evaluated in terms of absolute dollar value, was reasonably aligned with the relative performance of the Company.

| | REALIZABLE COMPENSATION RELATIVE TO PEERS | PERFORMANCE RELATIVE TO PEERS | ALIGNMENT OF REALIZABLE COMPENSATION AND PERFORMANCE |
|---|---|---|---|
| CEO Realizable Compensation (Value) | 19th Percentile | 32nd Percentile | Reasonable |

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

***CEO Realizable Compensation as a Percent of Expected Value Relative to Company TSR Performance***

This analysis examines the percent difference in compensation granted to our CEO in a particular year expressed on an expected value basis (note 1 below) versus the same compensation expressed on a realizable value basis (note 2 below) at the end of 2016. This percent difference is compared to the change in actual Company TSR for the same time periods to understand if the difference in expected value pay and realizable pay is directionally similar to our TSR performance. For example, if our stock price falls over a period of time we would expect our CEO s realizable compensation to be less than the expected value at the time the compensation was granted. In evaluating this analysis, the Committee was satisfied that the CEO s realizable compensation was directionally similar to changes in our TSR.

| Year | MSA CEO Target TDC at Grant (1) | MSA CEO Realizable Value (2) | Measurement Period | Change in Pay Value (3) | Change in MSA TSR (4) | Alignment |
|---|---|---|---|---|---|---|
| 2014 | $ 3,318,528 | $ 4,066,131 | 2014 - 2016 | 23% | 46% | Reasonable |
| 2015 | $ 3,276,665 | $ 4,038,440 | 2015 - 2016 | 23% | 38% | Reasonable |
| 2016 | $ 3,507,177 | $ 5,315,972 | 2016 | 52% | 64% | Reasonable |
| Total | $ 10,102,370 | $ 13,420,543 | 2014 - 2016 | 33% | 46% | Reasonable |

(1) Target TDC at Grant includes for each particular year the CEO s base salary, target bonus and the grant date fair value of equity awards granted.
(2) Realizable value includes for each particular year the CEO s base salary, actual bonus earned and the realizable value of equity awards granted during that particular year using our December 31, 2016 closing stock price. See page 32 for a more detailed description of realizable value for long-term incentive awards.
(3) Change in Pay Value is the change in the CEO s compensation from the time it was granted to December 31, 2016 considering the impact of actual performance relative to performance goals and changes in Company stock price.
(4) MSA TSR is calculated on a point-to-point basis using the final trading day of each year.

**OTHER COMPENSATION AND RETIREMENT POLICIES**

In addition to the other components of our executive compensation program, we maintain the compensation policies described below. These policies are consistent with evolving best practices and help ensure that our executive compensation program does not encourage our officers to engage in risk taking beyond our ability to effectively identify and manage.

*Post Employment Retirement Benefits.* Retirement related compensation is designed to provide financial security following retirement from the Company and to reward for loyalty and tenure. Retirement benefits fall into three major elements which include pension, 401(k) and non-qualified retirement plans. All of these programs exist to help attract, retain, and motivate key executives. The programs listed below are designed to be competitive and are compared periodically to representative peer companies. Retirement-related compensation programs do not have a direct linkage to performance but rather a link to a long term commitment to MSA, as do all other welfare benefits.

Pension offered as part of a retirement package that helps the Company recruit employees and provides security and peace of mind for future retirement, enabling executives and other employees to exit the workforce at retirement age. Pension amounts are based on final average pay, years of service, age, and a pre-determined plan formula.

401(k) offered as part of our benefits package to encourage employees to save for their own retirement and future financial security. MSA matches 100% of the first 1% of employee contributions and 50% of the next 6% for a total match of 4% on 7% of compensation. Plan design and provisions are reviewed periodically to determine if the total retirement package is competitive.

Non-qualified retirement plans provide additional retirement benefits for executives whose accumulations and contributions in the qualified plans are limited by the Internal Revenue Code. MSA maintains three such plans. The MSA 2005 Supplemental Retirement Savings Plan provides benefits beyond the limitations imposed on 401(k) plans. The MSA Supplemental Pension Plan provides benefits beyond the limitations imposed on defined benefit pension plans. The Company ceased providing benefits under the Supplemental Pension Plan for any employees who are newly hired or

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

promoted into the eligible class of Key Executives after December 31, 2012. The MSA Supplemental Executive Retirement Plan provides additional retirement benefits only for officers who retire from the Company at age 55 or later. The Company ceased providing benefits under the MSA Supplemental Executive Retirement Plan to any new executives who joined the Company after January 1, 2008.

*Stock Ownership Guidelines and Retention Policy.* The Committee has adopted stock ownership guidelines and a retention policy for all Company officers as well as other key executives. The Company believes that significant ownership levels provide additional motivation to executives to perform in accordance with the interests of the Company s shareholders. All officers are expected to hold a number of shares equal in value to their salary grade midpoint multiplied by a stock multiplier ranging from 2.25 up to 5.5 for the CEO. All officers have a five-year period from the time they become an officer to accumulate the specified shares. That specified ownership amount is expected to be retained thereafter as long as an executive remains an active employee.

The Company has a stock retention policy in addition to the stock ownership guidelines. Prior to achieving the stock ownership guidelines mentioned above, the executive must retain 100% of all equity awards through the Company s compensation program (net of exercise costs and taxes). Once the ownership threshold requirement is met, each executive is required to retain at least 20% of the dollar value of additional shares (net of exercise costs and taxes) realized through the exercise of stock options, the vesting of restricted stock or restricted stock units, and the vesting of performance-based stock units until age 62. Upon attaining age 62, the executive may begin divesting the additional retention shares, but must continue to abide by the basic stock ownership guidelines. The fifth column in the table below sets forth the accumulated retention requirements for each Named Officer based upon past option exercises and share and unit vestings.

The Named Officers all exceeded their stock ownership guidelines requirements and total ownership requirements as of December 31, 2016.

The stock ownership and retention requirements for each Named Officer are as follows:

**STOCK OWNERSHIP AND RETENTION REQUIREMENTS**

| Name | Title | Salary Midpoint as of 12/31/2016 | | 2016 Stock Multiplier | | Basic Ownership Requirement | Accumulated Retention Requirement | Total Ownership Requirement |
|---|---|---|---|---|---|---|---|---|
| William M. Lambert | Chairman, President and Chief Executive Officer | $ 798,000 | x | 5.50 | = | $ 4,389,000 | $ 1,336,423 | $ 5,725,423 |
| Kenneth D. Krause[1] | Vice President, Chief Financial Officer and Treasurer | $ 372,450 | x | 2.25 | = | $ 838,013 | $ | $ 838,013 |
| Nishan J. Vartanian | Senior Vice President, & President, MSA Americas | $ 372,450 | x | 3.50 | = | $ 1,303,575 | $ 39,192 | $ 1,342,767 |
| Ronald N. Herring, Jr. | Senior Vice President, & President, MSA International | $ 372,450 | x | 3.50 | = | $ 1,303,575 | $ 294,125 | $ 1,597,700 |
| Douglas K. McClaine | Senior Vice President, Secretary and Chief Legal Officer | $ 372,450 | x | 3.50 | = | $ 1,303,575 | $ 191,137 | $ 1,494,712 |

(1) Mr. Krause is subject to the accumulated retention requirement, however as of December 31, 2016 he has not yet incurred a transaction that would establish or otherwise increase that amount.

The following forms of share ownership apply toward the stock ownership requirements: shares purchased; vested and unvested restricted stock; vested and unvested restricted stock units; shares retained following the exercise of stock options; and other shares acquired through any other lawful means. Performance based restricted stock or stock units that have not yet met the performance tests are not applied toward the stock ownership requirements. The Company currently does not have a formal penalty should an executive fail to meet the expected ownership level in the allotted timeframe, but all

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

executives understand these requirements, and the Committee may use its discretion to reduce or eliminate future long-term incentive grants, or take such other actions as it deems appropriate if ownership guidelines continued to not be met. These ownership guidelines help drive a culture of ownership and accountability among the executive team.

*Hedging and Pledging*. The Company maintains an insider trading policy that restricts officers and directors in the trading of their Company stock. That policy specifically prohibits officers and directors from hedging or pledging their Company stock.

*Recoupment Policy.* The Company has a recoupment policy applicable to officers and other Company employees. In the event of a restatement of MSA s financial results or a determination of other misconduct that causes financial harm to the Company, the Board will review the circumstances that caused the restatement and consider issues of accountability for those who bore responsibility for the events. As part of that review, consideration would also be given to any appropriate action regarding compensation that may have been awarded to such persons. In particular, it would be appropriate to consider whether any compensation was awarded on the basis of having achieved specified performance targets, whether a person engaged in misconduct that contributed to the restatement and whether such compensation would have been reduced had the financial results been properly reported. Depending on the outcome of that review, appropriate action could include reducing compensation in the year the restatement was made, seeking repayment of any incentives received for the period restated or any gains realized as a result of exercising an option awarded for the period restated, or canceling any unvested equity compensation awarded for the period restated.

*Perquisites.* The Company provides executives with a limited number of perquisites in order to strengthen business relationships and maximize the use of our executives time. Our perquisites have been benchmarked to the market and are considered ordinary, customary, and minimal for each executive s position. The following are available to the Named Officers:

Automobile each Named Officer is provided a Company leased vehicle to facilitate travel among MSA s various locations and for other business travel. Personal use of this automobile is calculated and imputed as income for each executive.

Club memberships a country club membership is provided to our CEO to facilitate customer contact and a business club is provided to our CEO to afford a downtown Pittsburgh location for business meetings.

Financial planning and tax return assistance provides advice and guidance to executives on investment and income tax issues in order to maximize the use and understanding of our executive compensation program and minimize time otherwise required for taxation issues.

The Company does not own or lease an aircraft, nor does the Company have fractional ownership in any aircraft, nor does it pay for executives personal travel.

*Severance Policy.* The Company has a severance pay policy that applies to the Named Officers as well as all other eligible salaried employees. The policy applies to a permanent termination of the employment relationship when initiated by the Company and when other conditions are satisfied. A schedule of benefits determines the separation benefit ranging from four weeks to a maximum of fifty-two weeks of severance pay based on final salary.

*Change in Control.* The Company has entered into change in control employment agreements with each of the Named Officers. These agreements provide Named Officers up to three years income and benefits following a change in control of the Company. These agreements are intended to retain executives, provide continuity of management in the event of an actual or threatened change in control and enable executives to remain financially indifferent when evaluating opportunities that may be beneficial to shareholders yet could negatively impact the continued employment of the executive. Cash severance payments are payable and accelerated vesting of unvested equity awards occurs only in the event of both a change in control and termination of employment other than for cause, death or disability (commonly known as a double trigger ). There are no tax gross-up provisions in the change in control agreements.

*Stock Option and Other Equity Granting Process.* The Company grants stock options and all other equity grants for executives and all other eligible associates at the first regularly scheduled Compensation Committee meeting of each calendar year. The

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COMPENSATION DISCUSSION AND ANALYSIS *(CONTINUED)*

Committee makes its grants effective on the later of the date of the Compensation Committee meeting at which the grant was made or the third business day after the Company s year-end earnings release. The 2016 annual grants were made under the 2008 Management Equity Incentive Plan. The 2017 grants will be made under the Amended and Restated 2016 Management Equity Incentive Plan, which was approved by shareholders in May 2016. The stock option exercise price will be set as the closing price on the grant date, as permitted by generally accepted accounting principles. Option dating practices are consistent, regular and unbiased. The Company does not backdate options or grants of any kind.

*Adjustments or Recovery of Prior Compensation.* The Company does not have employment agreements with any Named Officer. As described above under Recoupment Policy, the Company maintains a recoupment policy to facilitate the recovery or adjustment of amounts previously awarded or paid to a Named Officer, in the event of a restatement of MSA s financial results or a determination of other misconduct that causes financial harm to the Company. Additionally, the Sarbanes-Oxley Act of 2002 provides that if the Company is required to restate its financial results due to material noncompliance with financial reporting requirements as a result of misconduct, the Chief Executive Officer and the Chief Financial Officer must reimburse the Company for any bonus, incentive or equity-based compensation received, and any profits realized from the sale of Company securities, during the twelve months following the issuance or filing of the noncompliant results.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee of the Board of Directors has reviewed the Compensation Discussion and Analysis and has discussed it with management. Based upon its review and those discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2016.

Robert A. Bruggeworth, Chair

Diane M. Pearse

Rebecca B. Roberts

Thomas H. Witmer

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**Summary Compensation Table**

The following table shows the compensation for 2016, 2015 and 2014 of the Company s principal executive officer, the Company s three principal financial officers during the year, and the other three executive officers of the Company with the highest total compensation for 2016 (the Named Officers ):

| Name and Principal Position | Year | Salary | Stock Awards (1) | Stock option awards (2) | Non-equity incentive plan compensation (3) | Change in pension value (4) | All other compensation (5) | Total |
|---|---|---|---|---|---|---|---|---|
| William M. Lambert | 2016 | $ 809,692 | $ 941,887 | $ 957,598 | $ 980,393 | $ 951,324 | $ 94,593 | $ 4,735,487 |
| Chairman President and Chief | 2015 | $ 787,269 | $ 776,691 | $ 934,205 | $ 682,978 | $ 557,403 | $ 92,604 | $ 3,831,150 |
| Executive Officer | 2014 | $ 761,192 | $ 1,070,626 | $ 803,160 | $ 716,087 | $ 1,972,439 | $ 113,515 | $ 5,437,019 |
| Kenneth D. Krause (6) | 2016 | $ 308,395 | $ 996,295 | $ 124,148 | $ 327,166 | $ 47,331 | $ 30,821 | $ 1,834,156 |
| Vice President, Chief Financial Officer | 2015 | $ 233,726 | $ 153,067 | $ 26,337 | $ 73,581 | $ 19,880 | $ 10,600 | $ 517,191 |
| and Treasurer | | | | $ 1,573 | | | | |

| | | |
|---|---|---|
| Transfer of loans to other real estate owned and repossessed assets | $309 | $- |
| Acquisition of noncash assets and liabilities: | | |
| Assets acquired | $7,284 | $- |
| Liabilities assumed | $2,492 | $- |

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

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**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Changes In Shareholders' Equity - Unaudited**

*(dollars in thousands, except per share information)*

| | For the Six Months Ended June 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shares of Common Stock Issued | Common Stock | Paid-in Capital | Treasury Stock | Accumulated Other Comprehensive Loss | Retained Earnings | Total Shareholders' Equity |
| Balance December 31, 2016 | 21,110,968 | $21,111 | $232,806 | $(66,950) | $ (2,409) | $196,569 | $ 381,127 |
| Net income | - | - | - | - | - | 18,477 | 18,477 |
| Dividends declared, $0.42 per share | - | - | - | - | - | (7,230) | (7,230) |
| Other comprehensive income, net of tax expense of $455 | - | - | - | - | 845 | - | 845 |
| Stock based compensation | - | - | 915 | - | - | - | 915 |
| Form S-4 stock issuance costs | - | - | (108) | - | - | | (108) |
| Retirement of treasury stock | (2,628) | (3) | (23) | 26 | - | - | - |
| Net purchase of treasury stock from stock awards for statutory tax withholdings | - | - | - | (98) | - | - | (98) |
| Net purchase of treasury stock for deferred compensation trusts | - | - | - | (69) | - | - | (69) |
| Common stock issued through share-based awards and options exercises | 54,117 | 54 | 1,064 | - | - | - | 1,118 |
| Balance June 30, 2017 | 21,162,457 | $21,162 | $234,654 | $(67,091) | $ (1,564) | $207,816 | $ 394,977 |

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

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**BRYN MAWR BANK CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**Note 1 - Basis of Presentation**

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In the opinion of Bryn Mawr Bank Corporation's (the "Corporation") management, all adjustments necessary for a fair presentation of the consolidated financial position and the results of operations for the interim periods presented have been included. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Corporation's Annual Report on Form 10-K for the twelve months ended December 31, 2016 (the "2016 Annual Report").

The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year.

**Note 2 - Earnings per Common Share**

Basic earnings per common share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted earnings per common share takes into account the potential dilution computed pursuant to the treasury stock method that could occur if stock options were exercised and converted into common stock, as well as the effect of restricted and performance shares becoming unrestricted common stock. The effects of stock options are excluded from the computation of diluted earnings per share in periods in which the effect would be anti-dilutive. All weighted average shares, actual shares and per share information in the financial statements have been adjusted retroactively for the effect of stock dividends and splits.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollars in thousands except per share data)* | 2017 | 2016 | 2017 | 2016 |
| **Numerator:** | | | | |

| | | | | |
|---|---|---|---|---|
| Net income available to common shareholders | $9,433 | $8,933 | $18,477 | $17,255 |
| **Denominator for basic earnings per share –** weighted average shares outstanding | 16,984,563 | 16,812,219 | 16,969,431 | 16,830,211 |
| Effect of dilutive common shares | 248,204 | 215,200 | 238,381 | 123,905 |
| **Denominator for diluted earnings per share –** adjusted weighted average shares outstanding | 17,232,767 | 17,027,419 | 17,207,812 | 16,954,116 |
| Basic earnings per share | $0.56 | $0.53 | $1.09 | $1.03 |
| Diluted earnings per share | $0.55 | $0.52 | $1.07 | $1.02 |
| Antidilutive shares excluded from computation of average dilutive earnings per share | — | — | — | — |

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**Note 3 - Business Combinations**

**Harry R. Hirshorn & Company, Inc., d/b/a Hirshorn Boothby ("Hirshorn")**

The acquisition of Hirshorn, an insurance agency headquartered in the Chestnut Hill section of Philadelphia, was completed on May 24, 2017. Immediately after the acquisition, Hirshorn was merged into the Bank's existing insurance subsidiary, Powers Craft Parker and Beard, Inc. The consideration paid by the Bank was $7.5 million, of which $5.8 million was paid at closing, with three contingent cash payments, not to exceed $575 thousand each, to be payable on each of May 24, 2018, May 24, 2019, and May 24, 2020, subject to the attainment of certain revenue targets during the related periods. The acquisition enhanced the Bank's ability to offer comprehensive insurance solutions to both individual and business clients and continues the strategy of selectively establishing specialty offices in targeted areas.

In connection with the Hirshorn acquisition, the following table details the consideration paid, the initial estimated fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition and the resulting goodwill recorded:

| *(dollars in thousands)* | |
|---|---|
| **Consideration paid:** | |
| Cash paid at closing | $5,770 |
| Contingent payment liability (present value) | 1,690 |
| Value of consideration | 7,460 |
| | |
| **Assets acquired:** | |
| Cash operating accounts | 978 |
| Intangible assets – trade name | 195 |
| Intangible assets – customer relationships | 2,672 |
| Intangible assets – non-competition agreements | 41 |
| Premises and equipment | 1,795 |
| Accounts receivable | 192 |
| Other assets | 27 |
| Total assets | 5,900 |
| | |
| **Liabilities assumed:** | |
| Accounts payable | 800 |
| Other liabilities | 2 |
| Total liabilities | 802 |

| | |
|---|---|
| **Net assets acquired** | 5,098 |
| **Goodwill resulting from acquisition of Hirshorn** | $2,362 |

**Pending Business Combination – Royal Bancshares of Pennsylvania, Inc.**

On January 30, 2017, the Corporation entered into a definitive Agreement and Plan of Merger to acquire Royal Bancshares of Pennsylvania, Inc. (“RBPI”), parent company of Royal Bank America (“RBA”), in a transaction with an aggregate value of $127.7 million (the “RBPI Acquisition”). In connection with the Acquisition, RBPI will merge with and into the Corporation and RBA will merge with and into the Bank. The RBPI Acquisition, which is expected to add approximately $602 million in loans and $630 million in deposits (based on December 31, 2016 financial information), strengthens the Corporation’s position as the largest community bank in Philadelphia’s western suburbs and, based on deposits, ranks it as the eighth largest community bank headquartered in Pennsylvania. The RBPI Acquisition, which will expand the Corporation's distribution network by providing entry into the new markets of New Jersey and Berks County, Pennsylvania, and an expanded physical presence in Philadelphia County, Pennsylvania, is expected to close during the third quarter of 2017.

**Due Diligence, Merger-Related and Merger Integration Expenses**

Due diligence, merger-related and merger integration expenses may include consultant costs, investment banker fees, contract breakage fees, retention bonuses for severed employees, and salary and wages for staffing involved in the integration of the institutions. The following table details the costs identified and classified as due diligence, merger-related and merger integration costs for the periods indicated:

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| *(dollars in thousands)* | **2017** | **2016** | **2017** | **2016** |
| Salaries and wages | $320 | $ — | $400 | $ — |
| Employee benefits | 5 | — | 5 | — |
| Advertising | 19 | — | 19 | — |
| Professional fees | 542 | — | 938 | — |
| Information technology | 259 | — | 259 | — |
| Other | 91 | — | 126 | — |
| Total due diligence and merger-related expenses | $1,236 | $ — | $1,747 | $ — |

**Note 4 - Investment Securities**

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

**As of June 30, 2017**

| *(dollars in thousands)* | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
|---|---|---|---|---|
| U.S. Treasury securities | $ 101 | $ — | $ — | $ 101 |
| Obligations of the U.S. government and agencies | 127,167 | 196 | (895 ) | 126,468 |
| Obligations of state and political subdivisions | 27,470 | 47 | (35 ) | 27,482 |

| | | | | |
|---|---|---|---|---|
| Mortgage-backed securities | 230,137 | 1,338 | (858) | 230,617 |
| Collateralized mortgage obligations | 43,211 | 68 | (730) | 42,549 |
| Other investments | 16,268 | 238 | (36) | 16,470 |
| Total | $ 444,354 | $ 1,887 | $ (2,554) | $ 443,687 |

**As of December 31, 2016**

| *(dollars in thousands)* | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
|---|---|---|---|---|
| U.S. Treasury securities | $ 200,094 | $ 3 | $ — | $ 200,097 |
| Obligations of the U.S. government and agencies | 83,111 | 167 | (1,080) | 82,198 |
| Obligations of state and political subdivisions | 33,625 | 26 | (121) | 33,530 |
| Mortgage-backed securities | 185,997 | 1,260 | (1,306) | 185,951 |
| Collateralized mortgage obligations | 49,488 | 108 | (902) | 48,694 |
| Other investments | 16,575 | 105 | (154) | 16,526 |
| Total | $ 568,890 | $ 1,669 | $ (3,563) | $ 566,996 |

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

**As of June 30, 2017**

| | **Less than 12 Months** | | **12 Months or Longer** | | **Total** | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| Obligations of the U.S. government and agencies | $ 90,259 | $ (895) | $ — | $ — | $ 90,259 | $ (895) |
| Obligations of state and political subdivisions | 11,196 | (22) | 918 | (13) | 12,114 | (35) |
| Mortgage-backed securities | 116,531 | (858) | — | — | 116,531 | (858) |
| Collateralized mortgage obligations | 32,050 | (730) | — | — | 32,050 | (730) |
| Other investments | 1,807 | (36) | — | — | 1,807 | (36) |
| Total | $ 251,843 | $ (2,541) | $ 918 | $ (13) | $ 252,761 | $ (2,554) |

**As of December 31, 2016**

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| Obligations of the U.S. government and agencies | $62,211 | $ (1,080 ) | $— | $ — | $62,211 | $ (1,080 ) |
| Obligations of state and political subdivisions | 24,482 | (121 ) | — | — | 24,482 | (121 ) |
| Mortgage-backed securities | 101,433 | (1,306 ) | — | — | 101,433 | (1,306 ) |
| Collateralized mortgage obligations | 35,959 | (902 ) | — | — | 35,959 | (902 ) |
| Other investments | 2,203 | (93 ) | 11,895 | (61 ) | 14,098 | (154 ) |
| Total | $226,288 | $ (3,502 ) | $11,895 | $ (61 ) | $238,183 | $ (3,563 ) |

Management evaluates the Corporation’s investment securities available for sale that are in an unrealized loss position in order to determine if the decline in fair value is other than temporary. The available for sale investment portfolio includes debt securities issued by U.S. government agencies, U.S. government-sponsored agencies, state and local municipalities and other issuers. All fixed income investment securities in the Corporation’s available for sale investment portfolio are rated as investment grade. Factors considered in the evaluation include the current economic climate, the length of time and the extent to which the fair value has been below cost, interest rates and the bond rating of each security. The unrealized losses presented in the tables above are temporary in nature and are primarily related to market interest rates rather than the underlying credit quality of the issuers. The Corporation does not believe that these unrealized losses are other-than-temporary. The Corporation does not have the intent to sell these securities prior to their maturity or the recovery of their cost bases and believes that it is more likely than not that it will not have to sell these securities prior to their maturity or the recovery of their cost bases.

As of June 30, 2017 and December 31, 2016, securities having fair values of $96.4 million and $119.4 million, respectively, were specifically pledged as collateral for public funds, trust deposits, the Federal Reserve Bank of Philadelphia discount window program, Federal Home Loan Bank of Pittsburgh (“FHLB”) borrowings and other purposes. The FHLB has a blanket lien on non-pledged, mortgage-related loans as part of the Corporation’s borrowing agreement with the FHLB.

The amortized cost and fair value of investment securities *available for sale* as of June 30, 2017 and December 31, 2016, by contractual maturity, are detailed below:

| | June 30, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| *(dollars in thousands)* | **Amortized Cost** | **Fair Value** | **Amortized Cost** | **Fair Value** |
| Investment securities[1]: | | | | |

| | | | | |
|---|---|---|---|---|
| Due in one year or less | $12,880 | $12,884 | $213,876 | $213,885 |
| Due after one year through five years | 84,120 | 83,799 | 40,335 | 40,270 |
| Due after five years through ten years | 42,097 | 41,654 | 45,840 | 44,914 |
| Due after ten years | 16,741 | 16,813 | 18,079 | 18,055 |
| Subtotal | 155,838 | 155,150 | 318,130 | 317,124 |
| Mortgage-related securities[1] | 273,348 | 273,166 | 235,485 | 234,644 |
| Mutual funds with no stated maturity | 15,168 | 15,371 | 15,275 | 15,228 |
| Total | $444,354 | $443,687 | $568,890 | $566,996 |

[1] *Expected maturities of mortgage-related securities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.*

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The amortized cost and fair value of investment securities *held to maturity* as of June 30, 2017 and December 31, 2016 are detailed below:

**As of June 30, 2017**

| *(dollars in thousands)* | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
|---|---|---|---|---|
| Mortgage-backed securities | $ 5,161 | $ 4 | $ (63 ) | $5,102 |
| Total | $ 5,161 | $ 4 | $ (63 ) | $5,102 |

**As of December 31, 2016**

| *(dollars in thousands)* | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Fair Value** |
|---|---|---|---|---|
| Mortgage-backed securities | $ 2,879 | $ — | $ (61 ) | $2,818 |
| Total | $ 2,879 | $ — | $ (61 ) | $2,818 |

The following tables detail the amount of *held to maturity* securities that were in an unrealized loss position as of June 30, 2017 and December 31, 2016:

**As of June 30, 2017**

| | **Less than 12 Months** | | **12 Months or Longer** | | **Total** | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| Mortgage-backed securities | $3,858 | $ (63 ) | $ — | $ — | $3,858 | $ (63 ) |
| Total | $3,858 | $ (63 ) | $ — | $ — | $3,858 | $ (63 ) |

**As of December 31, 2016**

| *(dollars in thousands)* | **Less than 12 Months** | | **12 Months or Longer** | | **Total** | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| Mortgage-backed securities | $2,818 | $ (61 ) | $ — | $ — | $2,818 | $ (61 ) |
| Total | $2,818 | $ (61 ) | $ — | $ — | $2,818 | $ (61 ) |

The amortized cost and fair value of investment securities *held to maturity* as of June 30, 2017 and December 31, 2016, by contractual maturity, are detailed below:

| *(dollars in thousands)* | **June 30, 2017** | | **December 31, 2016** | |
|---|---|---|---|---|
| | **Amortized Cost** | **Fair Value** | **Amortized Cost** | **Fair Value** |
| Mortgage-related securities[1] | $5,161 | $5,102 | $2,879 | $2,818 |
| Total | $5,161 | $5,102 | $2,879 | $2,818 |

[1] *Expected maturities of mortgage-related securities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.*

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As of June 30, 2017 and December 31, 2016, the Corporation's investment securities held in *trading* accounts totaled $4.0 million and $3.9 million, respectively, and consisted solely of deferred compensation trust accounts which were invested in listed mutual funds whose diversification is at the discretion of the deferred compensation plan participants. Investment securities held in trading accounts are reported at fair value, with adjustments in fair value reported through income.

**Note 5 - Loans and Leases**

The loan and lease portfolio consists of loans and leases originated by the Corporation, as well as loans acquired in mergers and acquisitions. These mergers and acquisitions include the January 2015 acquisition of CBH, the November 2012 transaction with First Bank of Delaware ("FBD") and the July 2010 acquisition of First Keystone Financial, Inc. ("FKF"). Many of the tables in this footnote are presented for all loans as well as supplemental tables for *originated* and *acquired* loans.

**A. The table below details *all* portfolio loans and leases as of the dates indicated:**

| | **June 30, 2017** | December 31, 2016 |
|---|---|---|
| Loans held for sale | $8,590 | $9,621 |
| Real estate loans: | | |
| Commercial mortgage | $1,197,936 | $1,110,898 |
| Home equity lines and loans | 208,480 | 207,999 |
| Residential mortgage | 416,488 | 413,540 |
| Construction | 156,581 | 141,964 |
| Total real estate loans | 1,979,485 | 1,874,401 |
| Commercial and industrial | 599,203 | 579,791 |
| Consumer | 28,485 | 25,341 |
| Leases | 59,478 | 55,892 |
| Total portfolio loans and leases | 2,666,651 | 2,535,425 |
| Total loans and leases | $2,675,241 | $2,545,046 |
| Loans with fixed rates | $1,158,959 | $1,130,172 |
| Loans with adjustable or floating rates | 1,516,282 | 1,414,874 |
| Total loans and leases | $2,675,241 | $2,545,046 |

| | | |
|---|---|---|
| Net deferred loan origination fees included in the above loan table | $(888 ) | $(735 ) |

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

| | **June 30, 2017** | December 31, 2016 |
|---|---|---|
| Loans held for sale | $8,590 | $9,621 |
| Real estate loans: | | |
| Commercial mortgage | $1,057,797 | $946,879 |
| Home equity lines and loans | 182,531 | 178,450 |
| Residential mortgage | 352,335 | 342,268 |
| Construction | 156,581 | 141,964 |
| Total real estate loans | 1,749,244 | 1,609,561 |
| Commercial and industrial | 572,872 | 550,334 |
| Consumer | 28,370 | 25,200 |
| Leases | 59,478 | 55,892 |
| Total portfolio loans and leases | 2,409,964 | 2,240,987 |
| Total loans and leases | $2,418,554 | $2,250,608 |
| Loans with fixed rates | $1,039,144 | $992,917 |
| Loans with adjustable or floating rates | 1,379,410 | 1,257,691 |
| Total originated loans and leases | $2,418,554 | $2,250,608 |
| Net deferred loan origination fees included in the above loan table | $(888 ) | $(735 ) |

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

| | **June 30, 2017** | **December 31, 2016** |
|---|---|---|
| Real estate loans: | | |
| Commercial mortgage | $140,139 | $164,019 |
| Home equity lines and loans | 25,949 | 29,549 |
| Residential mortgage | 64,153 | 71,272 |
| Total real estate loans | 230,241 | 264,840 |
| Commercial and industrial | 26,331 | 29,457 |
| Consumer | 115 | 141 |
| Total portfolio loans and leases | 256,687 | 294,438 |
| Total loans and leases | $256,687 | $294,438 |
| Loans with fixed rates | $119,815 | $137,255 |
| Loans with adjustable or floating rates | 136,872 | 157,183 |
| Total acquired loans and leases | $256,687 | $294,438 |

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

| *(dollars in thousands)* | **June 30, 2017** | **December 31, 2016** |
|---|---|---|
| Minimum lease payments receivable | $66,140 | $62,379 |
| Unearned lease income | (8,817) | (8,608) |
| Initial direct costs and deferred fees | 2,155 | 2,121 |
| Total | $59,478 | $55,892 |

**C. Non-Performing Loans and Leases[(1)]**

The following table details *all* non-performing portfolio loans and leases as of the dates indicated:

| (dollars in thousands) | June 30, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| **Non-accrual loans and leases**: | | | | |
| Commercial mortgage | $ | 818 | $ | 320 |
| Home equity lines and loans | | 1,535 | | 2,289 |
| Residential mortgage | | 2,589 | | 2,658 |
| Commercial and industrial | | 2,112 | | 2,957 |
| Consumer | | 10 | | 2 |
| Leases | | 173 | | 137 |
| Total | **$** | 7,237 | $ | 8,363 |

(1) *Purchased credit-impaired loans, which have been recorded at their fair values at acquisition, and which are performing, are excluded from this table, with the exception of $273 thousand and $344 thousand of purchased credit-impaired loans as of June 30, 2017 and December 31, 2016, respectively, which became non-performing subsequent to acquisition.*

The following table details non-performing *originated* portfolio loans and leases as of the dates indicated:

| (dollars in thousands) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| **Non-accrual originated loans and leases**: | | |
| Commercial mortgage | $768 | $ 265 |
| Home equity lines and loans | 1,184 | 2,169 |
| Residential mortgage | 1,297 | 1,654 |
| Commercial and industrial | 855 | 941 |
| Consumer | 10 | 2 |
| Leases | 173 | 137 |
| Total | **$**4,287 | $ 5,168 |

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

| *(dollars in thousands)* | **June 30, 2017** | **December 31, 2016** |
|---|---|---|
| **Non-accrual acquired loans and leases**: | | |
| Commercial mortgage | $50 | $ 55 |
| Home equity lines and loans | 351 | 120 |
| Residential mortgage | 1,292 | 1,004 |
| Commercial and industrial | 1,257 | 2,016 |
| Total | $2,950 | $ 3,195 |

(1) *Purchased credit-impaired loans, which have been recorded at their fair values at acquisition, and which are performing, are excluded from this table, with the exception of $273 thousand and $344 thousand of purchased credit-impaired loans as of June 30, 2017 and December 31, 2016, respectively, which became non-performing subsequent to acquisition.*

**D. Purchased Credit-Impaired Loans**

The outstanding principal balance and related carrying amount of credit-impaired loans, for which the Corporation applies ASC 310-30, *Accounting for Purchased Loans with Deteriorated Credit Quality*, to account for the interest earned, as of the dates indicated, are as follows:

| *(dollars in thousands)* | **June 30, 2017** | **December 31, 2016** |
|---|---|---|
| Outstanding principal balance | $17,044 | $ 18,091 |
| Carrying amount[1] | $11,738 | $ 12,432 |

*(1) Includes $284 thousand and $368 thousand of purchased credit-impaired loans as of June 30, 2017 and December 31, 2016, respectively, for which the Corporation could not estimate the timing or amount of expected cash flows to be collected at acquisition, and for which no accretable yield is recognized. Additionally, the table above includes $273 thousand and $344 thousand of purchased credit-impaired loans as of June 30, 2017 and December 31, 2016, respectively, which became non-performing subsequent to acquisition, which are disclosed in*

*Note 5C, above, and which also have no accretable yield.*

The following table presents changes in the accretable discount on purchased credit-impaired loans, for which the Corporation applies ASC 310-30, for the six months ended June 30, 2017:

| *(dollars in thousands)* | **Accretable Discount** |
|---|---|
| Balance, December 31, 2016 | $ 3,233 |
| Accretion | (779 ) |
| Reclassifications from nonaccretable difference | — |
| Additions/adjustments | 666 |
| Disposals | — |
| Balance, June 30, 2017 | $ 3,120 |

**E. Age Analysis of Past Due Loans and Leases**

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

| *(dollars in thousands)* | **Accruing Loans and Leases** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **As of June 30, 2017** | **30 – 59 Days Past Due** | **60 – 89 Days Past Due** | **Over 89 Days Past Due** | **Total Past Due** | **Current*** | **Total Accruing Loans and Leases** | **Nonaccrual Loans and Leases** | **Total Loans and Leases** |
| Commercial mortgage | $68 | $1,009 | $ — | $1,077 | $1,196,041 | $1,197,118 | $ 818 | $1,197,936 |
| Home equity lines and loans | 250 | — | — | 250 | 206,695 | 206,945 | 1,535 | 208,480 |
| Residential mortgage | 2,704 | 1,301 | — | 4,005 | 409,894 | 413,899 | 2,589 | 416,488 |
| Construction | — | — | — | — | 156,581 | 156,581 | — | 156,581 |
| Commercial and industrial | 350 | 83 | — | 433 | 596,658 | 597,091 | 2,112 | 599,203 |
| Consumer | — | 5 | — | 5 | 28,470 | 28,475 | 10 | 28,485 |
| Leases | 234 | 254 | — | 488 | 58,817 | 59,305 | 173 | 59,478 |
| | $3,606 | $2,652 | $ — | $6,258 | $2,653,156 | $2,659,414 | $ 7,237 | $2,666,651 |

| *(dollars in thousands)* As of December 31, 2016 | Accruing Loans and Leases 30 – 59 Days Past Due | 60 – 89 Days Past Due | Over 89 Days Past Due | Total Past Due | Current* | Total Accruing Loans and Leases | Nonaccrual Loans and Leases | Total Loans and Leases |
|---|---|---|---|---|---|---|---|---|
| Commercial mortgage | $666 | $722 | $ — | $1,388 | $1,109,190 | $1,110,578 | $ 320 | $1,110,898 |
| Home equity lines and loans | 11 | — | — | 11 | 205,699 | 205,710 | 2,289 | 207,999 |
| Residential mortgage | 823 | 490 | — | 1,313 | 409,569 | 410,882 | 2,658 | 413,540 |
| Construction | — | — | — | — | 141,964 | 141,964 | — | 141,964 |
| Commercial and industrial | 36 | — | — | 36 | 576,798 | 576,834 | 2,957 | 579,791 |
| Consumer | 10 | 5 | — | 15 | 25,324 | 25,339 | 2 | 25,341 |
| Leases | 177 | 86 | — | 263 | 55,492 | 55,755 | 137 | 55,892 |
| | $1,723 | $1,303 | $ — | $3,026 | $2,524,036 | $2,527,062 | $ 8,363 | $2,535,425 |

**included as "current" are $2.4 million and $15.3 million of loans and leases as of June 30, 2017 and December 31, 2016, respectively, which are classified as Administratively Delinquent. An Administratively Delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. The Corporation does not consider these loans to be delinquent.*

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

| *(dollars in thousands)* As of June 30, 2017 | Accruing Loans and Leases 30 – 59 Days Past Due | 60 – 89 Days Past Due | Over 89 Days Past Due | Total Past Due | Current* | Total Accruing Loans and Leases | Nonaccrual Loans and Leases | Total Loans and Leases |
|---|---|---|---|---|---|---|---|---|
| Commercial mortgage | $— | $84 | $ — | $84 | $1,056,945 | $1,057,029 | $ 768 | $1,057,797 |
| Home equity lines and loans | 250 | — | — | 250 | 181,097 | 181,347 | 1,184 | 182,531 |
| Residential mortgage | 620 | 1,080 | — | 1,700 | 349,338 | 351,038 | 1,297 | 352,335 |
| Construction | — | — | — | — | 156,581 | 156,581 | — | 156,581 |
| Commercial and industrial | 350 | 83 | — | 433 | 571,584 | 572,017 | 855 | 572,872 |
| Consumer | — | 5 | — | 5 | 28,355 | 28,360 | 10 | 28,370 |
| Leases | 234 | 254 | — | 488 | 58,817 | 59,305 | 173 | 59,478 |
| | $1,454 | $1,506 | $ — | $2,960 | $2,402,717 | $2,405,677 | $ 4,287 | $2,409,964 |

| *(dollars in thousands)* | Accruing Loans and Leases | Current* | Nonaccrual | Total |
|---|---|---|---|---|

| As of December 31, 2016 | 30 – 59 Days Past Due | 60 – 89 Days Past Due | Over 89 Days Past Due | Total Past Due | | Total Accruing Loans and Leases | Loans and Leases | Loans and Leases |
|---|---|---|---|---|---|---|---|---|
| Commercial mortgage | $— | $722 | $ — | $722 | $945,892 | $946,614 | $ 265 | $946,879 |
| Home equity lines and loans | 11 | — | — | 11 | 176,270 | 176,281 | 2,169 | 178,450 |
| Residential mortgage | 773 | 64 | — | 837 | 339,778 | 340,615 | 1,653 | 342,268 |
| Construction | — | — | — | — | 141,964 | 141,964 | — | 141,964 |
| Commercial and industrial | — | — | — | — | 549,393 | 549,393 | 941 | 550,334 |
| Consumer | 10 | 5 | — | 15 | 25,183 | 25,198 | 2 | 25,200 |
| Leases | 177 | 86 | — | 263 | 55,492 | 55,755 | 137 | 55,892 |
| | $971 | $877 | $ — | $1,848 | $2,233,972 | $2,235,820 | $ 5,167 | $2,240,987 |

**included as "current" are $2.4 million and $13.5 million of loans and leases as of June 30, 2017 and December 31, 2016, respectively, which are classified as Administratively Delinquent. An Administratively Delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. The Corporation does not consider these loans to be delinquent.*

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

| *(dollars in thousands)* | Accruing Loans and Leases | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| As of June 30, 2017 | 30 – 59 Days Past Due | 60 – 89 Days Past Due | Over 89 Days Past Due | Total Past Due | Current* | Total Accruing Loans and Leases | Nonaccrual Loans and Leases | Total Loans and Leases |
| Commercial mortgage | $68 | $925 | $ — | $993 | $139,096 | $140,089 | $ 50 | $140,139 |
| Home equity lines and loans | — | — | — | — | 25,598 | 25,598 | 351 | 25,949 |
| Residential mortgage | 2,084 | 221 | — | 2,305 | 60,556 | 62,861 | 1,292 | 64,153 |
| Commercial and industrial | — | — | — | — | 25,074 | 25,074 | 1,257 | 26,331 |
| Consumer | — | — | — | — | 115 | 115 | — | 115 |
| | $2,152 | $1,146 | $ — | $3,298 | $250,439 | $253,737 | $ 2,950 | $256,687 |

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| (dollars in thousands) As of December 31, 2016 | Accruing Loans and Leases 30 – 59 Days Past Due | 60 – 89 Days Past Due | Over 89 Days Past Due | Total Past Due | Current* | Total Accruing Loans and Leases | Nonaccrual Loans and Leases | Total Loans and Leases |
|---|---|---|---|---|---|---|---|---|
| Commercial mortgage | $666 | $— | $ — | $666 | $163,298 | $163,964 | $ 55 | $164,019 |
| Home equity lines and loans | — | — | — | — | 29,429 | 29,429 | 120 | 29,549 |
| Residential mortgage | 50 | 426 | — | 476 | 69,791 | 70,267 | 1,005 | 71,272 |
| Commercial and industrial | 36 | — | — | 36 | 27,405 | 27,441 | 2,016 | 29,457 |
| Consumer | — | — | — | — | 141 | 141 | — | 141 |
| | $752 | $426 | $ — | $1,178 | $290,064 | $291,242 | $ 3,196 | $294,438 |

**included as "current" are $0 and $1.8 million of loans and leases as of June 30, 2017 and December 31, 2016, respectively, which are classified as Administratively Delinquent. An Administratively Delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. The Corporation does not consider these loans to be delinquent.*

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

The following tables detail the roll-forward of the Allowance for the three and six months ended June 30, 2017:

| (dollars in thousands) | Commercial Mortgage | Home Equity Lines and Loans | Residential Mortgage | Construction | Commercial and Industrial | Consumer | Leases | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance, March 31, 2017 | $ 6,410 | $1,243 | $ 1,798 | $ 2,195 | $ 4,747 | $ 135 | $579 | $ — | $17,107 |
| Charge-offs | — | (169) | (43) | — | (200) | (18) | (307) | — | (737) |
| Recoveries | 3 | — | — | 1 | 15 | 2 | 91 | — | 112 |
| Provision for loan and lease losses | 195 | 140 | 21 | (1,085) | 251 | 58 | 337 | — | (83) |
| Balance, June 30, 2017 | $ 6,608 | $1,214 | $ 1,776 | $ 1,111 | $ 4,813 | $ 177 | $700 | $ — | $16,399 |

| *(dollars in thousands)* | **Commercial Mortgage** | **Home Equity Lines and Loans** | **Residential Mortgage** | **Construction** | **Commercial and Industrial** | **Consumer** | **Leases** | **Unallocated** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2016 | $ 6,227 | $ 1,255 | $ 1,917 | $ 2,233 | $ 5,142 | $ 153 | $ 559 | $ — | $ 17,486 |
| Charge-offs | — | (606 ) | (70 ) | — | (259 ) | (59 ) | (513 ) | — | (1,507 ) |
| Recoveries | 6 | — | — | 2 | 15 | 4 | 185 | — | 212 |
| Provision for loan and lease losses | 375 | 565 | (71 ) | (1,124 ) | (85 ) | 79 | 469 | — | 208 |
| Balance, June 30, 2017 | $ 6,608 | $ 1,214 | $ 1,776 | $ 1,111 | $ 4,813 | $ 177 | $ 700 | $ — | $ 16,399 |

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

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

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

Balance June 30,
2016

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The following table details the allocation of the Allowance for *all* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2017 and December 31, 2016:

| *(dollars in thousands)* | Commercial Mortgage | Home Equity Lines and Loans | Residential Mortgage | Construction | Commercial and Industrial | Consumer | Leases | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| **As of June 30, 2017** | | | | | | | | | |
| Allowance on loans and leases: | | | | | | | | | |
| Individually evaluated for impairment | $ — | $ 3 | $ 112 | $ — | $ — | $ 14 | $ — | $ — | $ 129 |
| Collectively evaluated for impairment | 6,608 | 1,211 | 1,664 | 1,111 | 4,813 | 163 | 700 | — | 16,270 |
| Purchased credit-impaired(1) | — | — | — | — | — | — | — | — | — |
| Total | $ 6,608 | $ 1,214 | $ 1,776 | $ 1,111 | $ 4,813 | $ 177 | $ 700 | $ — | $ 16,399 |
| **As of December 31, 2016** | | | | | | | | | |
| Allowance on loans and leases: | | | | | | | | | |
| Individually evaluated for impairment | $ — | $ — | $ 73 | $ — | $ 5 | $ 8 | $ — | $ — | $ 86 |
| Collectively evaluated for impairment | 6,227 | 1,255 | 1,844 | 2,233 | 5,137 | 145 | 559 | — | 17,400 |
| Purchased credit-impaired(1) | — | — | — | — | — | — | — | — | — |
| Total | $ 6,227 | $ 1,255 | $ 1,917 | $ 2,233 | $ 5,142 | $ 153 | $ 559 | $ — | $ 17,486 |

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

The following table details the carrying value for *all* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2017 and December 31, 2016:

| *(dollars in thousands)* | Commercial Mortgage | Home Equity Lines and Loans | Residential Mortgage | Construction | Commercial and Industrial | Consumer | Leases | Total |
|---|---|---|---|---|---|---|---|---|
| **As of June 30, 2017** | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Carrying value of loans and leases: | | | | | | | | |
| Individually evaluated for impairment | $2,070 | $1,534 | $6,950 | $— | $2,139 | $38 | $— | $12,731 |
| Collectively evaluated for impairment | 1,185,929 | 206,851 | 409,538 | 156,581 | 595,358 | 28,447 | 59,478 | 2,642,182 |
| Purchased credit-impaired(1) | 9,937 | 95 | — | — | 1,706 | — | — | 11,738 |
| Total | $1,197,936 | $208,480 | $416,488 | $156,581 | $599,203 | $28,485 | $59,478 | $2,666,651 |
| **As of December 31, 2016** | | | | | | | | |
| Carrying value of loans and leases: | | | | | | | | |
| Individually evaluated for impairment | $1,576 | $2,354 | $7,266 | $— | $2,946 | $31 | $— | $14,173 |
| Collectively evaluated for impairment | 1,098,788 | 205,540 | 406,271 | 141,964 | 575,055 | 25,310 | 55,892 | 2,508,820 |
| Purchased credit-impaired(1) | 10,534 | 105 | 3 | — | 1,790 | — | — | 12,432 |
| Total | $1,110,898 | $207,999 | $413,540 | $141,964 | $579,791 | $25,341 | $55,892 | $2,535,425 |

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

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The following table details the allocation of the Allowance for *originated* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2017 and December 31, 2016:

| *(dollars in thousands)* | Commercial Mortgage | Home Equity Lines and Loans | Residential Mortgage | Construction | Commercial and Industrial | Consumer | Leases | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| **As of June 30, 2017** | | | | | | | | | |
| Allowance on loans and leases: | | | | | | | | | |
| Individually evaluated for impairment | $ — | $ 3 | $ 87 | $ — | $ — | $ 14 | $ — | $ — | $ 104 |
| Collectively evaluated for impairment | 6,608 | 1,211 | 1,664 | 1,111 | 4,813 | 163 | 700 | — | 16,270 |
| Total | $ 6,608 | $ 1,214 | $ 1,751 | $ 1,111 | $ 4,813 | $ 177 | $ 700 | $ — | $ 16,374 |
| **As of December 31, 2016** | | | | | | | | | |
| Allowance on loans and leases: | | | | | | | | | |
| Individually evaluated for impairment | $ — | $ — | $ 45 | $ — | $ 5 | $ 8 | $ — | $ — | $ 58 |
| Collectively evaluated for impairment | 6,227 | 1,255 | 1,844 | 2,233 | 5,137 | 145 | 559 | — | 17,400 |
| Total | $ 6,227 | $ 1,255 | $ 1,889 | $ 2,233 | $ 5,142 | $ 153 | $ 559 | $ — | $ 17,458 |

The following table details the carrying value for *originated* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2017 and December 31, 2016:

| *(dollars in thousands)* | Commercial Mortgage | Home Equity Lines and Loans | Residential Mortgage | Construction | Commercial and Industrial | Consumer | Leases | Total |
|---|---|---|---|---|---|---|---|---|
| **As of June 30, 2017** | | | | | | | | |
| Carrying value of loans and leases: | | | | | | | | |
| Individually evaluated for | $ 2,020 | $ 1,264 | $ 3,684 | $ — | $ 1,075 | $ 38 | $ — | $ 8,081 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| impairment | | | | | | | | |
| Collectively evaluated for impairment | 1,055,777 | 181,267 | 348,651 | 156,581 | 571,797 | 28,332 | 59,478 | 2,401,883 |
| Total | $ 1,057,797 | $ 182,531 | $ 352,335 | $ 156,581 | $ 572,872 | $ 28,370 | $ 59,478 | $ 2,409,964 |
| **As of December 31, 2016** | | | | | | | | |
| Carrying value of loans and leases: | | | | | | | | |
| Individually evaluated for impairment | $ 1,521 | $ 2,319 | $ 4,111 | $ — | $ 1,190 | $ 31 | $— | $ 9,172 |
| Collectively evaluated for impairment | 945,358 | 176,131 | 338,157 | 141,964 | 549,144 | 25,169 | 55,892 | 2,231,815 |
| Total | $ 946,879 | $ 178,450 | $ 342,268 | $ 141,964 | $ 550,334 | $ 25,200 | $ 55,892 | $ 2,240,987 |

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The following table details the allocation of the Allowance for *acquired* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2017 and December 31, 2016:

| *(dollars in thousands)* | **Commercial Mortgage** | **Home Equity Lines and Loans** | **Residential Mortgage** | **Construction** | **Commercial and Industrial** | **Consumer** | **Leases** | **Unallocated** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| **As of June 30, 2017** | | | | | | | | | |
| Allowance on loans and leases: | | | | | | | | | |
| Individually evaluated for impairment | $ — | $ — | $ 25 | $ — | $ — | $ — | $ — | $ — | $ 25 |
| Collectively evaluated for impairment | — | — | — | — | — | — | — | — | — |
| Purchased credit-impaired[1] | — | — | — | — | — | — | — | — | — |
| Total | $ — | $ — | $ 25 | $ — | $ — | $ — | $ — | $ — | $ 25 |
| **As of December 31, 2016** | | | | | | | | | |
| Allowance on loans and leases: | | | | | | | | | |
| Individually evaluated for impairment | $ — | $ — | $ 28 | $ — | $ — | $ — | $ — | $ — | $ 28 |
| Collectively evaluated for impairment | — | — | — | — | — | — | — | — | — |
| Purchased credit-impaired[1] | — | — | — | — | — | — | — | — | — |
| Total | $ — | $ — | $ 28 | $ — | $ — | $ — | $ — | $ — | $ 28 |

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

The following table details the carrying value for *acquired* portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2017 and December 31, 2016:

| *(dollars in thousands)* | **Commercial Mortgage** | **Home Equity Lines and Loans** | **Residential Mortgage** | **Construction** | **Commercial and Industrial** | **Consumer** | **Leases** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **As of June 30, 2017** | | | | | | | | |
| Carrying value of loans and leases: | | | | | | | | |
| Individually evaluated for impairment | $ 50 | $ 270 | $ 3,266 | $ — | $ 1,064 | $ — | $ — | $ 4,650 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Collectively evaluated for impairment | 130,152 | 25,584 | 60,887 | — | 23,561 | 115 | — | 240,299 |
| Purchased credit-impaired[1] | 9,937 | 95 | — | — | 1,706 | — | — | 11,738 |
| Total | $ 140,139 | $ 25,949 | $ 64,153 | $ — | $ 26,331 | $ 115 | $ — | $ 256,687 |
| **As of December 31, 2016** | | | | | | | | |
| Carrying value of loans and leases: | | | | | | | | |
| Individually evaluated for impairment | $ 55 | $ 35 | $ 3,155 | $ — | $ 1,756 | $ — | $ — | $ 5,001 |
| Collectively evaluated for impairment | 153,430 | 29,409 | 68,114 | — | 25,911 | 141 | — | 277,005 |
| Purchased credit-impaired[1] | 10,534 | 105 | 3 | — | 1,790 | — | — | 12,432 |
| Total | $ 164,019 | $ 29,549 | $ 71,272 | $ — | $ 29,457 | $ 141 | $ — | $ 294,438 |

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

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

- Pass – Loans considered satisfactory with no indications of deterioration.

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

- Substandard - Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

- Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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

The following tables detail the carrying value of *all* portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of June 30, 2017 and December 31, 2016:

| | **Credit Risk Profile by Internally Assigned Grade** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **Commercial Mortgage** | | **Construction** | | **Commercial and Industrial** | | **Total** | |
| | **June 30, 2017** | **December 31, 2016** | **June 30, 2017** | **December 31, 2016** | **June 30, 2017** | **December 31, 2016** | **June 30, 2017** | **December 31, 2016** |
| Pass | $1,186,673 | $1,099,557 | $154,580 | $140,370 | $592,072 | $570,342 | $1,933,325 | $1,810,269 |
| Special Mention | — | 1,892 | — | — | 1,150 | 2,315 | 1,150 | 4,207 |
| Substandard | 11,263 | 9,449 | 2,001 | 1,594 | 5,693 | 5,512 | 18,957 | 16,555 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Doubtful | — | — | — | — | 288 | 1,622 | 288 | 1,622 |
| Total | $1,197,936 | $1,110,898 | $156,581 | $141,964 | $599,203 | $579,791 | $1,953,720 | $1,832,653 |

**Credit Risk Profile by Payment Activity**

| *(dollars in thousands)* | **Residential Mortgage** | | **Home Equity Lines and Loans** | | **Consumer** | | **Leases** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **June 30, 2017** | **December 31, 2016** | **June 30, 2017** | **December 31, 2016** | **June 30, 2017** | **December 31, 2016** | **June 30, 2017** | **December 31, 2016** | **June 30, 2017** | **December 31, 2016** |
| Performing | $413,899 | $410,882 | $206,945 | $205,710 | $28,475 | $25,339 | $59,305 | $55,755 | $708,624 | $697,686 |
| Non-performing | 2,589 | 2,658 | 1,535 | 2,289 | 10 | 2 | 173 | 137 | 4,307 | 5,086 |
| Total | $416,488 | $413,540 | $208,480 | $207,999 | $28,485 | $25,341 | $59,478 | $55,892 | $712,931 | $702,772 |

The following tables detail the carrying value of *originated* portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of June 30, 2017 and December 31, 2016:

**Credit Risk Profile by Internally Assigned Grade**

| *(dollars in thousands)* | **Commercial Mortgage** | | **Construction** | | **Commercial and Industrial** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | **June 30, 2017** | **December 31, 2016** | **June 30, 2017** | **December 31, 2016** | **June 30, 2017** | **December 31, 2016** | **June 30, 2017** | **December 31, 2016** |
| Pass | $1,047,903 | $936,737 | $154,580 | $140,370 | $569,149 | $544,876 | $1,771,632 | $1,621,983 |
| Special Mention | — | 1,892 | — | — | 1,107 | 2,279 | 1,107 | 4,171 |
| Substandard | 9,894 | 8,250 | 2,001 | 1,594 | 2,491 | 3,054 | 14,386 | 12,898 |
| Doubtful | — | — | — | — | 125 | 125 | 125 | 125 |
| Total | $1,057,797 | $946,879 | 156,581 | $141,964 | $572,872 | $550,334 | $1,787,250 | $1,639,177 |

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**Credit Risk Profile by Payment Activity**

| *(dollars in thousands)* | Residential Mortgage | | Home Equity Lines and Loans | | Consumer | | Leases | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 |
| Performing | $351,038 | $340,615 | $181,347 | $176,281 | $28,360 | $25,198 | $59,305 | $55,755 | $620,050 | $597,849 |
| Non-performing | 1,297 | 1,653 | 1,184 | 2,169 | 10 | 2 | 173 | 137 | 2,664 | 3,961 |
| Total | $352,335 | $342,268 | $182,531 | $178,450 | $28,370 | $25,200 | $59,478 | $55,892 | $622,714 | $601,810 |

The following tables detail the carrying value of *acquired* portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of June 30, 2017 and December 31, 2016:

**Credit Risk Profile by Internally Assigned Grade**

| *(dollars in thousands)* | Commercial Mortgage | | Construction | | Commercial and Industrial | | Total | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 |
| Pass | $138,770 | $162,820 | $ — | $ — | $22,923 | $25,466 | $161,693 | $188,286 |
| Special Mention | — | — | — | — | 43 | 36 | 43 | 36 |
| Substandard | 1,369 | 1,199 | — | — | 3,202 | 2,458 | 4,571 | 3,657 |
| Doubtful | — | — | — | — | 163 | 1,497 | 163 | 1,497 |
| Total | $140,139 | $164,019 | $ — | $ — | $26,331 | $29,457 | $166,470 | $193,476 |

**Credit Risk Profile by Payment Activity**

| *(dollars in thousands)* | Residential Mortgage | | Home Equity Lines and Loans | | Consumer | | Total | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 | June 30, 2017 | December 31, 2016 |
| Performing | $62,861 | $70,267 | $25,598 | $29,429 | $115 | $ 141 | $88,574 | $99,837 |
| Non-performing | 1,292 | 1,005 | 351 | 120 | — | — | 1,643 | 1,125 |
| Total | $64,153 | $71,272 | $25,949 | $29,549 | $115 | $ 141 | $90,217 | $100,962 |

**G. Troubled Debt Restructurings ("TDRs")**

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

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

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

| *(dollars in thousands)* | **June 30, 2017** | **December 31, 2016** |
|---|---|---|
| TDRs included in nonperforming loans and leases | $2,470 | $ 2,632 |
| TDRs in compliance with modified terms | 6,148 | 6,395 |
| Total TDRs | $8,618 | $ 9,027 |

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The following table presents information regarding loan and lease modifications categorized as TDRs for the three months ended June 30, 2017:

| | For the Three Months Ended June 30, 2017 | | |
|---|---|---|---|
| *(dollars in thousands)* | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Leases | 2 | $ 59 | $ 59 |
| Total | 2 | $ 59 | $ 59 |

The following table presents information regarding the types of loan and lease modifications made for the three months ended June 30, 2017:

| | Number of Contracts for the Three Months Ended June 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Interest Rate Change | Loan Term Extension | Interest Rate Change and Term Extension | Interest Rate Change and/or Interest-Only Period | Contractual Payment Reduction (Leases only) | Forgiveness of Interest | Forgiveness of Principal |
| Leases | — | — | — | — | 2 | — | — |
| Total | — | — | — | — | 2 | — | — |

The following table presents information regarding loan and lease modifications categorized as TDRs for the six months ended June 30, 2017:

| | For the Six Months Ended June 30, 2017 | |
|---|---|---|
| *(dollars in thousands)* | Pre-Modification | Post-Modification |

| | Number of Contracts | Outstanding Recorded Investment | | Outstanding Recorded Investment | |
|---|---|---|---|---|---|
| Home equity loans and lines | 1 | $ | 8 | $ | 8 |
| Residential mortgage | 1 | | 194 | | 202 |
| Leases | 5 | | 121 | | 121 |
| Total | 7 | $ | 323 | $ | 331 |

The following table presents information regarding the types of loan and lease modifications made for the six months ended June 30, 2017:

| | Number of Contracts for the Six Months Ended June 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Interest Rate Change | Loan Term Extension | Interest Rate Change and Term Extension | Interest Rate Change and/or Interest-Only Period | Contractual Payment Reduction (Leases only) | Forgiveness of Interest | Forgiveness of Principal |
| Home equity loans and lines | — | 1 | — | — | — | — | — |
| Residential mortgage | — | — | 1 | — | — | — | — |
| Leases | — | — | — | — | 5 | — | — |
| Total | — | 1 | 1 | — | 5 | — | — |

During the three and six months ended June 30, 2017, there were no defaults of loans or leases that had been previously modified to troubled debt restructurings.

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**H. Impaired Loans**

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

*(dollars in thousands)*

| **As of or for the three months ended June 30, 2017** | **Recorded Investment**[2] | **Principal Balance** | **Related Allowance** | **Average Principal Balance** | **Interest Income Recognized** | **Cash-Basis Interest Income Recognized** |
|---|---|---|---|---|---|---|
| Impaired loans with related Allowance: | | | | | | |
| Home equity lines and loans | $ 21 | $ 21 | $ 3 | $ 21 | $ — | $ — |
| Residential mortgage | 1,578 | 1,578 | 112 | 1,581 | 20 | — |
| Consumer | 38 | 38 | 14 | 38 | — | — |
| Total | $ 1,637 | $ 1,637 | $ 129 | $ 1,640 | $ 20 | $ — |
| Impaired loans without related Allowance[1] [3]: | | | | | | |
| Commercial mortgage | $ 2,071 | $ 2,106 | $ — | $ 2,113 | $ 15 | $ — |
| Home equity lines and loans | 1,514 | 2,054 | — | 1,536 | 1 | — |
| Residential mortgage | 5,371 | 5,712 | — | 5,496 | 36 | — |
| Commercial and industrial | 2,140 | ,2,796 | — | 2,338 | 3 | — |
| Total | $ 11,096 | $ 12,668 | $ — | $ 11,483 | $ 55 | $ — |
| Grand total | $ 12,733 | $ 14,305 | $ 129 | $ 13,123 | $ 75 | $ — |

(1) *The table above does not include the recorded investment of $379 thousand of impaired leases without a related Allowance.*

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

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

| *(dollars in thousands)* | **Recorded Investment**[2] | **Principal Balance** | **Related Allowance** | **Average Principal Balance** | **Interest Income Recognized** | **Cash-Basis Interest Income Recognized** |
|---|---|---|---|---|---|---|

| **As of or for the six months ended June 30, 2017** | | | | | | |
|---|---|---|---|---|---|---|
| Impaired loans with related Allowance: | | | | | | |
| Home equity lines and loans | $ 21 | $ 21 | $ 3 | $ 21 | $ 1 | $ — |
| Residential mortgage | 1,578 | 1,578 | 112 | 1,585 | 41 | — |
| Consumer | 38 | 38 | 14 | 39 | 1 | — |
| Total | $ 1,637 | $ 1,637 | $ 129 | $ 1,645 | $ 43 | $ — |
| | | | | | | |
| Impaired loans without related Allowance[(1) (3)]: | | | | | | |
| Commercial mortgage | $ 2,071 | $ 2,106 | $ — | $ 2,117 | $ 39 | $ — |
| Home equity lines and loans | 1,514 | 2,054 | — | 1,579 | 3 | — |
| Residential mortgage | 5,371 | 5,712 | — | 5,521 | 76 | — |
| Commercial and industrial | 2,140 | ,2,796 | — | 2,367 | 6 | — |
| Total | $ 11,096 | $ 12,668 | $ — | $ 11,584 | $ 124 | $ — |
| | | | | | | |
| Grand total | $ 12,733 | $ 14,305 | $ 129 | $ 13,229 | $ 167 | $ — |

(1) *The table above does not include the recorded investment of $379 thousand of impaired leases without a related Allowance.*

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

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

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*(dollars in thousands)*

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

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

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

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

*(dollars in thousands)*

| As of or for the six months ended June 30, 2016 | Recorded Investment(2) | Principal Balance | Related Allowance | Average Principal Balance | Interest Income Recognized | Cash-Basis Interest Income Recognized |
|---|---|---|---|---|---|---|
| Impaired loans with related Allowance: | | | | | | |
| Residential mortgage | $ 626 | $ 626 | $ 74 | $ 641 | $ 14 | $ — |
| Commercial and industrial | 1,874 | 1,874 | 519 | 1,965 | 3 | — |
| Consumer | 32 | 32 | 7 | 32 | 1 | — |
| Total | $ 2,532 | $ 2,532 | $ 600 | $ 2,638 | $ 18 | $ — |
| Impaired loans without related Allowance(1) (3): | | | | | | |
| Commercial mortgage | $ 139 | $ 139 | $ — | $ 143 | $ 1 | $ — |
| Home equity lines and loans | 3,082 | 3,400 | — | 3,578 | 19 | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| Residential mortgage | 6,840 | 7,169 | — | 7,723 | 106 | — |
| Commercial and industrial | 1,702 | 2,309 | — | 3,079 | 2 | — |
| Consumer | 2 | 2 | — | 2 | — | — |
| Total | $ 11,765 | $ 13,019 | $ — | $ 14,525 | $ 128 | $ — |
| Grand total | $ 14,297 | $ 15,551 | $ 600 | $ 17,163 | $ 146 | $ — |

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

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

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

| *(dollars in thousands)* **As of December 31, 2016** | **Recorded Investment**[(2)] | **Principal Balance** | **Related Allowance** |
|---|---|---|---|
| Impaired loans with related allowance: | | | |
| Residential mortgage | $ 622 | $ 622 | $ 73 |
| Commercial and industrial | 84 | 84 | 5 |
| Consumer | 31 | 31 | 8 |
| Total | $ 737 | $ 737 | $ 86 |
| Impaired loans[(1)(3)] without related allowance: | | | |
| Commercial mortgage | $ 1,577 | $ 1,577 | $ — |
| Home equity lines and loans | 2,354 | 2,778 | — |
| Residential mortgage | 6,644 | 6,970 | — |
| Commercial and industrial | 2,862 | 3,692 | — |
| Total | $ 13,437 | $ 15,017 | $ — |
| Grand total | $ 14,174 | $ 15,754 | $ 86 |

(1) *The table above does not include the recorded investment of $240 thousand of impaired leases without a related Allowance.*

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

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

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**I. Loan Mark**

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

| *(dollars in thousands)* | As of June 30, 2017 | | |
|---|---|---|---|
| | Outstanding Principal | Remaining Loan Mark | Recorded Investment |
| Commercial mortgage | $144,148 | $(4,009) | $140,139 |
| Home equity lines and loans | 27,522 | (1,573) | 25,949 |
| Residential mortgage | 66,501 | (2,348) | 64,153 |
| Commercial and industrial | 29,464 | (3,133) | 26,331 |
| Consumer | 136 | (21) | 115 |
| Total | $267,771 | $(11,084) | $256,687 |

| *(dollars in thousands)* | As of December 31, 2016 | | |
|---|---|---|---|
| | Outstanding Principal | Remaining Loan Mark | Recorded Investment |
| Commercial mortgage | $168,612 | $(4,593) | $164,019 |
| Home equity lines and loans | 31,236 | (1,687) | 29,549 |
| Residential mortgage | 73,902 | (2,630) | 71,272 |
| Commercial and industrial | 32,812 | (3,355) | 29,457 |
| Consumer | 163 | (22) | 141 |
| Total | $306,725 | $(12,287) | $294,438 |

**Note 6 - Deposits**

The following table details the components of deposits:

| *(dollars in thousands)* | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Interest-bearing checking accounts | $381,345 | $379,424 |
| Money market accounts | 729,859 | 761,657 |
| Savings accounts | 254,903 | 232,193 |
| Wholesale non-maturity deposits | 54,675 | 74,272 |
| Wholesale time deposits | 120,524 | 73,037 |
| Time deposits | 321,982 | 322,912 |
| Total interest-bearing deposits | 1,863,288 | 1,843,495 |
| Non-interest-bearing deposits | 818,475 | 736,180 |
| Total deposits | $2,681,763 | $2,579,675 |

**Note 7 - Borrowings**

**A. Short-term borrowings**

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

A summary of short-term borrowings is as follows:

| *(dollars in thousands)* | **June 30, 2017** | **December 31, 2016** |
|---|---|---|
| Repurchase agreements* – commercial customers | $18,295 | $39,151 |
| Short-term FHLB advances | 112,000 | 165,000 |
| Overnight federal funds | — | — |
| Total short-term borrowings | $130,295 | $204,151 |

** overnight repurchase agreements with no expiration date*

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

| *(dollars in thousands)* | **Three Months Ended June 30,** | | | | **Six Months Ended June 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | | **2016** | | **2017** | | **2016** | |
| Balance at period-end | $130,295 | | $19,119 | | $130,295 | | $19,119 | |
| Maximum amount outstanding at any month-end | 130,295 | | 54,715 | | 130,295 | | 54,715 | |
| Average balance outstanding during the period | 98,869 | | 32,328 | | 73,378 | | 33,243 | |
| Weighted-average interest rate: | | | | | | | | |
| As of period-end | 1.11 | % | 0.10 | % | 1.11 | % | 0.10 | % |
| Paid during the period | 0.96 | % | 0.25 | % | 0.72 | % | 0.22 | % |

**B. Long-term FHLB Advances**

The Corporation’s long-term FHLB advances is comprised of advances from the FHLB with original maturities of greater than one year.

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

| *(dollars in thousands)* | **June 30,** | **December 31,** |
|---|---|---|
| | **2017** | **2016** |
| Within one year | $91,441 | $75,000 |
| Over one year through five years | 73,240 | 114,742 |
| Total | $164,681 | $189,742 |

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

| *(dollars in thousands)* | **Maturity Range(1)** | **Weighted** | **Coupon Rate(1)** | **Balance** |
|---|---|---|---|---|

| **Description** | **From** | **To** | **Average Rate**[(1)] | | **From** | **To** | **June 30, 2017** | **December 31, 2016** |
|---|---|---|---|---|---|---|---|---|
| Bullet maturity – fixed rate | 08/09/2017 | 12/19/2020 | 1.50 | % | 0.95% | 2.13% | $128,612 | $153,612 |
| Bullet maturity – variable rate | 11/28/2017 | 11/28/2017 | 1.35 | % | 1.35% | 1.35% | 15,000 | 15,000 |
| Convertible-fixed[(2)] | 01/03/2018 | 08/20/2018 | 2.94 | % | 2.58% | 3.50% | 21,069 | 21,130 |
| Total | | | | | | | $164,681 | $189,742 |

[(1)]*Maturity range, weighted average rate and coupon rate range refers to June 30, 2017 balances*
[(2)]*FHLB advances whereby the FHLB has the option, at predetermined times, to convert the fixed interest rate to an adjustable interest rate indexed to the London Interbank Offered Rate ("LIBOR"). The Corporation has the option to prepay these advances, without penalty, if the FHLB elects to convert the interest rate to an adjustable rate. As of June 30, 2017, substantially all FHLB advances with this convertible feature are subject to conversion in fiscal 2017. These advances are included in the maturity ranges in which they mature, rather than the period in which they are subject to conversion.*

**C. Other Borrowings Information**

As of June 30, 2017 the Corporation had a maximum borrowing capacity with the FHLB of $1.24 billion, of which the unused capacity was $1.01 billion. In addition, there were unused capacities of $79.0 million in overnight federal funds lines, $116.4 million of Federal Reserve Discount Window borrowings and $5.0 million in a revolving line of credit from a correspondent bank as of June 30, 2017. In connection with its FHLB borrowings, the Corporation is required to hold the capital stock of the FHLB. The amount of FHLB capital stock held was $15.2 million and $17.3 million as of June 30, 2017 and December 31, 2016, respectively. The carrying amount of the FHLB capital stock approximates its redemption value.

**Note 8 – Stock-Based Compensation**

**A. General Information**

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

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

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

RSAs and RSUs have a restriction based on the passage of time. The grant date fair value of the RSAs and RSUs is based on the closing price on the date of the grant.

PSAs and PSUs have a restriction based on the passage of time and also have a restriction based on a performance criteria. The performance criteria may be a market-based criteria measured by the Corporation's total shareholder return ("TSR") relative to the performance of the community bank index or a bank peer group for the respective period. The fair value of the PSAs and PSUs based on the Corporation's TSR relative to the performance of the community bank index is calculated using the Monte Carlo Simulation method. The performance criteria may also be based on a non-market-based criteria such as return on average equity. The grant date fair value of these PSUs and PSAs is based on the closing price of the Corporation's stock on the date of the grant. PSU and PSA grants may have a vesting percent ranging from 0% to 150%.

**B. Stock Options**

Stock-based compensation cost is measured at the grant date, based on the fair value of the award and is recognized as an expense over the vesting period. The fair value of stock option grants is determined using the Black-Scholes pricing model. The assumptions necessary for the calculation of the fair value are expected life of options, annual volatility of stock price, risk-free interest rate and annual dividend yield.

The following table provides information about options outstanding for the three months ended June 30, 2017:

| | Shares | Weighted<br>Average | Weighted |
|---|---|---|---|

| | | Exercise Price | Average Grant Date Fair Value |
|---|---|---|---|
| Options outstanding, March 31, 2017 | 155,845 | $ 20.80 | $ 4.86 |
| Forfeited | — | $ — | $ — |
| Expired | — | $ — | $ — |
| Exercised | (16,011 ) | $ 22.17 | $ 4.96 |
| Options outstanding, June 30, 2017 | 139,834 | $ 20.65 | $ 4.85 |

The following table provides information about options outstanding for the six months ended June 30, 2017:

| | Shares | Weighted Average Exercise Price | Weighted Average Grant Date Fair Value |
|---|---|---|---|
| Options outstanding, December 31, 2016 | 185,023 | $ 21.04 | $ 4.88 |
| Forfeited | — | $ — | $ — |
| Expired | — | $ — | $ — |
| Exercised | (45,189 ) | $ 22.25 | $ 4.97 |
| Options outstanding, June 30, 2017 | 139,834 | $ 20.65 | $ 4.85 |

As of June 30, 2017, there were no unvested stock options.

For the three and six months ended June 30, 2017, the Corporation did not recognize any expense related to stock options. As of June 30, 2017, there was no unrecognized expense related to stock options.

Proceeds, related tax benefits realized from options exercised and intrinsic value of options exercised during the three and six months ended June 30, 2017 and 2016 are detailed below:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(dollars in thousands)* | 2017 | 2016 | 2017 | 2016 |
| Proceeds from exercise of stock options | $355 | $363 | $1,005 | $647 |
| Related tax benefit recognized | 86 | 13 | 227 | 13 |
| Net proceeds of options exercised | $441 | $376 | $1,232 | $660 |
| Intrinsic value of options exercised | $326 | $124 | $874 | $255 |

The following table provides information about options outstanding and exercisable at June 30, 2017:

| *(dollars in thousands, except exercise price)* | **Outstanding** | **Exercisable** |
|---|---|---|
| Number of shares | 139,834 | 139,834 |
| Weighted average exercise price | $ 20.65 | $ 20.65 |
| Aggregate intrinsic value | $ 3,055 | $ 3,055 |
| Weighted average contractual term in years | 1.6 | 1.6 |

**C. Restricted Stock Awards and Performance Stock Awards**

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

**RSAs and RSUs**

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

For the three and six months ended June 30, 2017, the Corporation recognized $143 thousand and $323 thousand, respectively, of expense related to the Corporation's RSAs and RSUs. As of June 30, 2017, there was $1.0 million of unrecognized compensation cost related to RSAs and RSUs. This cost will be recognized over a weighted average period of 2.1 years.

The following table details the unvested RSAs and RSUs for the three and six months ended June 30, 2017:

| | **Three Months Ended June 30, 2017** | | **Six Months Ended June 30, 2017** | |
|---|---|---|---|---|
| | **Number of Shares** | **Weighted Average Grant Date Fair Value** | **Number of Shares** | **Weighted Average Grant Date Fair Value** |
| Beginning balance | 59,862 | $ 29.86 | 58,862 | $ 29.57 |
| Granted | 4,200 | $ 40.65 | 6,200 | $ 39.96 |
| Vested | (5,300 ) | $ 27.38 | (6.300 ) | $ 27.80 |
| Forfeited | (3,500 ) | $ 29.33 | (3,500 ) | $ 29.33 |
| Ending balance | 55,262 | $ 30.95 | 55,262 | $ 30.95 |

For the three and six months ended June 30, 2017, the Corporation recorded $27 thousand and $31 thousand, respectively, of excess tax benefits related to the vesting of RSAs and RSUs.

**PSAs and PSUs**

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

For the three and six months ended June 30, 2017, the Corporation recognized $288 thousand and $592 thousand, respectively, of expense related to the PSAs and PSUs. As of June 30, 2017, there was $1.4 million of unrecognized compensation cost related to PSAs. This cost will be recognized over a weighted average period of 1.7 years.

The following table details the unvested PSAs and PSUs for the three and six months ended June 30, 2017:

| | **Three Months Ended June 30, 2017** | | **Six Months Ended June 30, 2017** | |
|---|---|---|---|---|
| | **Number of Shares** | **Weighted Average Grant Date Fair Value** | **Number of Shares** | **Weighted Average Grant Date Fair Value** |
| Beginning balance | 192,844 | $ 18.77 | 192,844 | $ 18.77 |
| Granted | — | $ — | — | $ — |
| Vested | — | $ — | — | $ — |
| Forfeited | — | $ — | — | $ — |
| Ending balance | 192,844 | $ 18.77 | 192,844 | $ 18.77 |

**Note 9 - Pension and Other Post-Retirement Benefit Plans**

The Corporation has two defined benefit pension plans (“SERP I” and “SERP II”), both of which are non-qualified plans which are restricted to certain senior officers of the Corporation.

SERP I provides each participant with the equivalent pension benefit provided by a previously settled qualified defined benefit plan on any compensation and bonus deferrals that exceed the IRS limit applicable to such plan.

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

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

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

The following tables provide details of the components of the net periodic benefits cost (benefit) for the three and six months ended June 30, 2017 and 2016:

| | **Three Months Ended June 30,** | | | |
|---|---|---|---|---|
| | **SERP I and SERP II** | | **PRBP** | |
| *(dollars in thousands)* | **2017** | **2016** | **2017** | **2016** |
| Service cost | $— | $ — | $— | $ — |
| Interest cost | 44 | 46 | 3 | 5 |
| Expected return on plan assets | — | — | — | — |
| Amortization of prior service costs | — | — | — | — |
| Amortization of net loss | 15 | 14 | 9 | 10 |
| Net periodic benefit cost | $59 | $ 60 | $12 | $ 15 |

| | **Six Months Ended June 30,** | | | |
|---|---|---|---|---|
| | **SERP I and SERP II** | | **PRBP** | |
| *(dollars in thousands)* | **2017** | **2016** | **2017** | **2016** |
| Service cost | $— | $— | $— | $ — |
| Interest cost | 88 | 92 | 6 | 9 |
| Expected return on plan assets | — | — | — | — |
| Amortization of prior service costs | — | — | — | — |
| Amortization of net loss | 29 | 28 | 18 | 20 |
| Net periodic benefit cost | $117 | $120 | $24 | $ 29 |

**SERP I and SERP II:** The Corporation contributed $65 thousand and $130 thousand during the three and six months ended June 30, 2017, respectively, and is expected to contribute an additional $130 thousand to the SERP I and SERP II plans for the remaining six months of 2017.

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

**Note 10 - Segment Information**

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

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

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

The following tables detail segment information for the three and six months ended June 30, 2017 and 2016:

| *(dollars in thousands)* | Three Months Ended June 30, 2017 | | | Three Months Ended June 30, 2016 | | |
|---|---|---|---|---|---|---|
| | **Banking** | **Wealth Management** | **Consolidated** | **Banking** | **Wealth Management** | **Consolidated** |
| Net interest income | $27,964 | $ 1 | $ 27,965 | $26,626 | $ 1 | $ 26,627 |
| Less: loan loss provision | (83 ) | — | (83 ) | 445 | — | 445 |
| Net interest income after loan loss provision | 28,047 | 1 | 28,048 | 26,181 | 1 | 26,182 |
| Other income: | | | | | | |
| Fees for wealth management services | — | 9,807 | 9,807 | — | 9,431 | 9,431 |
| Service charges on deposit accounts | 630 | — | 630 | 713 | — | 713 |
| Loan servicing and other fees | 519 | — | 519 | 539 | — | 539 |
| Net (loss) gain on sale of loans | 520 | — | 520 | 857 | — | 857 |
| Net gain on sale of available for sale securities | — | — | — | (43 ) | — | (43 ) |
| Net (loss) gain on sale of other real estate owned | (12 ) | — | (12 ) | — | — | — |
| Insurance commissions | — | 943 | 943 | — | 845 | 845 |
| Other operating income | 2,329 | 49 | 2,378 | 1,411 | 28 | 1,439 |
| Total other income | 3,986 | 10,799 | 14,785 | 3,477 | 10,304 | 13,781 |
| Other expenses: | | | | | | |
| Salaries & wages | 9,284 | 4,296 | 13,580 | 8,282 | 3,915 | 12,197 |
| Employee benefits | 1,492 | 983 | 2,475 | 1,590 | 846 | 2,436 |
| Occupancy & equipment | 1,849 | 398 | 2,247 | 1,971 | 396 | 2,367 |
| Amortization of intangible assets | 196 | 491 | 687 | 218 | 671 | 889 |
| Professional fees | 1,031 | 18 | 1,049 | 897 | 49 | 946 |
| Other operating expenses | 7,418 | 1,039 | 8,457 | 6,281 | 1,104 | 7,385 |
| Total other expenses | 21,270 | 7,225 | 28,495 | 19,239 | 6,981 | 26,220 |
| Segment profit | 10,763 | 3,575 | 14,338 | 10,419 | 3,324 | 13,743 |
| Intersegment (revenues) expenses* | (112 ) | 112 | — | (99 ) | 99 | — |
| Pre-tax segment profit after eliminations | $10,651 | $ 3,687 | $ 14,338 | $10,320 | $ 3,423 | $ 13,743 |
| % of segment pre-tax profit after eliminations | 74.3 % | 25.7 % | 100.0 % | 75.1 % | 24.9 % | 100.0 % |
| Segment assets *(dollars in millions)* | $3,387 | $ 51 | $ 3,438 | $3,042 | $ 48 | $ 3,090 |

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| (dollars in thousands) | Six Months Ended June 30, 2017 Banking | Wealth Management | Consolidated | Six Months Ended June 30, 2016 Banking | Wealth Management | Consolidated |
|---|---|---|---|---|---|---|
| Net interest income | $55,366 | $ 2 | $ 55,368 | $52,528 | $ 1 | $ 52,529 |
| Less: loan loss provision | 208 | — | 208 | 1,855 | — | 1,855 |
| Net interest income after loan loss provision | 55,158 | 2 | 55,160 | 50,673 | 1 | 50,674 |
| Other income: | | | | | | |
| Fees for wealth management services | — | 19,110 | 19,110 | — | 18,263 | 18,263 |
| Service charges on deposit accounts | 1,277 | — | 1,277 | 1,415 | — | 1,415 |
| Loan servicing and other fees | 1,022 | — | 1,022 | 1,031 | — | 1,031 |
| Net (loss) gain on sale of loans | 1,149 | — | 1,149 | 1,562 | — | 1,562 |
| Net gain on sale of available for sale securities | 1 | — | 1 | (58) | — | (58) |
| Net (loss) gain on sale of other real estate owned | (12) | — | (12) | (76) | — | (76) |
| Insurance commissions | — | 1,706 | 1,706 | — | 2,121 | 2,121 |
| Other operating income | 3,662 | 97 | 3,759 | 2,612 | 64 | 2,676 |
| Total other income | 7,099 | 20,913 | 28,012 | 6,486 | 20,448 | 26,934 |
| Other expenses: | | | | | | |
| Salaries & wages | 17,915 | 8,115 | 26,030 | 16,179 | 7,756 | 23,935 |
| Employee benefits | 3,119 | 1,915 | 5,034 | 3,235 | 1,686 | 4,921 |
| Occupancy & equipment | 3,976 | 797 | 4,773 | 4,054 | 801 | 4,855 |
| Amortization of intangible assets | 392 | 988 | 1,380 | 438 | 1,342 | 1,780 |
| Professional fees | 1,712 | 48 | 1,760 | 1,696 | 63 | 1,759 |
| Other operating expenses | 14,113 | 2,065 | 16,178 | 11,998 | 1,968 | 13,966 |
| Total other expenses | 41,227 | 13,928 | 55,155 | 37,600 | 13,616 | 51,216 |
| Segment profit | 21,030 | 6,987 | 28,017 | 19,559 | 6,833 | 26,392 |
| Intersegment (revenues) expenses* | (224) | 224 | | (198) | 198 | — |
| Pre-tax segment profit after eliminations | $20,806 | $ 7,211 | $ 28,017 | $19,361 | $ 7,031 | $ 26,392 |
| % of segment pre-tax profit after eliminations | 74.3 % | 25.7 % | 100.0 % | 73.4 % | 26.6 % | 100.0 % |
| Segment assets *(dollars in millions)* | $3,387 | $ 51 | $ 3,438 | $3,042 | $ 48 | $ 3,090 |

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

Other segment information is as follows:

**Wealth Management Segment Information**

| | *(dollars in millions)* | |
|---|---|---|
| | **June 30, 2017** | **December 31, 2016** |
| Assets under management, administration, supervision and brokerage: | $12,050.6 | $11,328.5 |

**Note 11 - Mortgage Servicing Rights**

The following table summarizes the Corporation's activity related to mortgage servicing rights ("MSRs") for the three and six months ended June 30, 2017 and 2016:

| | **Three Months Ended June 30,** | |
|---|---|---|
| *(dollars in thousands)* | **2017** | **2016** |
| Balance, beginning of period | $5,686 | $5,183 |
| Additions | 213 | 243 |
| Amortization | (173 ) | (181 ) |
| Recovery | — | — |
| Impairment | (43 ) | (599 ) |
| Balance, end of period | $5,683 | $4,646 |
| Fair value | $6,057 | $4,646 |

| | **Six Months Ended June 30,** | |
|---|---|---|
| *(dollars in thousands)* | **2017** | **2016** |
| Balance, beginning of period | $5,582 | $5,142 |
| Additions | 489 | 502 |
| Amortization | (342 ) | (316 ) |
| Recovery | 2 | — |
| Impairment | (48 ) | (682 ) |
| Balance, end of period | $5,683 | $4,646 |
| Fair value | $6,057 | $4,646 |
| Residential mortgage loans serviced for others, end of period | $631,888 | $610,418 |

As of June 30, 2017 and December 31, 2016, key economic assumptions and the sensitivity of the current fair value of MSRs to immediate 10 and 20 percent adverse changes in those assumptions are as follows:

| *(dollars in thousands)* | **June 30, 2017** | **December 31, 2016** |
|---|---|---|
| Fair value amount of MSRs | $6,057 | $ 6,154 |
| Weighted average life (in years) | 5.9 | 6.3 |
| Prepayment speeds (constant prepayment rate)* | 11.5 % | 10.2 % |
| Impact on fair value: | | |
| 10% adverse change | $(171 ) | $ (115 ) |
| 20% adverse change | $(346 ) | $ (238 ) |
| Discount rate | 9.55 % | 9.55 % |
| Impact on fair value: | | |
| 10% adverse change | $(208 ) | $ (225 ) |
| 20% adverse change | $(401 ) | $ (434 ) |

* *Represents the weighted average prepayment rate for the life of the MSR asset.*

These assumptions and sensitivities are hypothetical and should be used with caution. Changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which could magnify or counteract the sensitivities.

**Note 12 - Goodwill and Other Intangibles**

The Corporation's goodwill and intangible assets related to the acquisitions of Lau Associates, LLC ("Lau") in July 2008, FKF in July 2010, the Private Wealth Management Group of the Hershey Trust Company ("PWMG") in May 2011, Davidson Trust Company ("DTC") in May 2012, the loan and deposit accounts and a branch location of FBD in November 2012, PCPB in October 2014, CBH in January 2015, RJM in April 2015 and Hirshorn in May 2017 are detailed below:

| *(dollars in thousands)* | **Balance** | **Additions/ Adjustments** | **Amortization** | **Balance June** | **Amortization Period** |
|---|---|---|---|---|---|

| | December 31, 2016 | | | 30, 2017 | (in years) |
|---|---|---|---|---|---|
| Goodwill – Wealth | $ 20,412 | $ — | $ — | $ 20,412 | Indefinite |
| Goodwill – Banking | 80,783 | — | — | 80,783 | Indefinite |
| Goodwill – Insurance | 3,570 | 2,362 | — | 5,932 | Indefinite |
| Total | $ 104,765 | $ 2,362 | $ — | $ 107,127 | |
| Core deposit intangible | $ 3,447 | $ — | $ (368 ) | $ 3,079 | 10 |
| Customer relationships | 13,056 | 2,672 | (748 ) | 14,980 | 10 to 20 |
| Non-compete agreements | 1,634 | 41 | (235 ) | 1,440 | 5 to 10 |
| Trade name | 2,165 | 195 | (5 ) | 2,355 | 3 to Indefinite |
| Domain name | — | 151 | — | 151 | Indefinite |
| Favorable lease | 103 | — | (24 ) | 79 | 17 to 75 months |
| Total | $ 20,405 | $ 3,059 | $ (1,380 ) | $ 22,084 | |
| Grand total | $ 125,170 | $ 5,421 | $ (1,380 ) | $ 129,211 | |

The Corporation performed its annual review of goodwill and identifiable intangible assets as of October 31, 2016 in accordance with ASC 350, "Intangibles Goodwill and Other." For the eight months ended June 30, 2017, the Corporation determined there were no events that would necessitate impairment testing of goodwill and other intangible assets.

**Note 13 – Derivative Instruments and Hedging Activities**

Derivative financial instruments involve, to varying degrees, interest rate, market and credit risk. The Corporation manages these risks as part of its asset and liability management process and through credit policies and procedures. The Corporation seeks to minimize counterparty credit risk by establishing credit limits and collateral agreements and utilizes certain derivative financial instruments to enhance its ability to manage interest rate risk that exists as part of its ongoing business operations. The derivative transactions entered into by the Corporation are an economic hedge of a derivative offering to a Bank customer. The Corporation does not use derivative financial instruments for trading purposes.

*Customer Derivatives – Interest Rate Swaps*. The Corporation enters into interest rate swaps that allow commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate commercial loan agreement. Under these agreements, the Corporation originates variable-rate loans with customers in addition to interest rate swap agreements, which serve to effectively swap the customers' variable-rate loans into a fixed-rate loans. The Company then enters into corresponding swap agreements with swap dealer counterparties to economically hedge its exposure on the variable and fixed components of the customer agreements. The interest rate swaps with both the customers and third parties are not designated as hedges under FASB ASC 815 and are marked to market through earnings. As the interest rate swaps are structured to offset each other, changes to the underlying benchmark interest rates considered in the valuation of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit quality variations between counterparties, which may impact earnings as required by FASB ASC 820. As of June 30, 2017, there were no fair value adjustments related to credit quality.

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The following table details the derivative instruments as of June 30, 2017 and December 31, 2016:

| *(dollars in thousands)* | **Asset Derivatives Notional Amount** | **Asset Derivatives Fair Value** | **Liability Derivatives Notional Amount** | **Liability Derivatives Fair Value** |
|---|---|---|---|---|
| **Derivatives not designated as hedging instruments** | | | | |
| As of June 30, 2017: | | | | |
| Customer derivatives – interest rate swaps | $42,977 | $ 794 | $42,977 | $ 794 |
| Total derivatives | $42,977 | $ 794 | $42,977 | $ 794 |
| As of December 31, 2016: | | | | |
| Customer derivatives – interest rate swaps | $— | $ — | $— | $ — |
| Total derivatives | $— | $ — | $— | $ — |

The Company has an International Swaps and Derivatives Association agreement with a third party that requires a minimum dollar transfer amount upon a margin call. This requirement is dependent on certain specified credit measures. The amount of collateral posted with the third party at June 30, 2017 and December 31, 2016 was $840 thousand and $0, respectively. The amount of collateral posted with the third party is deemed to be sufficient to collateralize both the fair market value change as well as any additional amounts that may be required as a result of a change in the specified credit measures. The aggregate fair value of all derivative financial instruments in a liability position with credit measure contingencies and entered into with the third party was $794 thousand and $0 as of June 30, 2017 and December 31, 2016, respectively.

**Note 14 – Accumulated Other Comprehensive Income (Loss)**

The following tables detail the components of accumulated other comprehensive income (loss) for the three and six month periods ended June 30, 2017 and 2016:

| *(dollars in thousands)* | **Net Change in Unrealized Gains on Available-for-** | **Net Change in Unfunded Pension Liability** | **Accumulated Other Comprehensive (Loss) Income** |
|---|---|---|---|

| Sale Investment Securities | | | |
|---|---|---|---|
| Balance, March 31, 2017 | $ (844 ) | $ (1,146 ) | $ (1,990 ) |
| Net change | 411 | 15 | 426 |
| Balance, June 30, 2017 | $ (433 ) | $ (1,131 ) | $ (1,564 ) |
| | | | |
| Balance, March 31, 2016 | $ 2,695 | $ (1,193 ) | $ 1,502 |
| Net change | 970 | 16 | 986 |
| Balance, June 30, 2016 | $ 3,665 | $ (1,177 ) | $ 2,488 |

| *(dollars in thousands)* | **Net Change in Unrealized Gains on Available-for-Sale Investment Securities** | **Net Change in Unfunded Pension Liability** | **Accumulated Other Comprehensive (Loss) Income** |
|---|---|---|---|
| Balance, December 31, 2016 | $ (1,231 ) | $ (1,178 ) | $ (2,409 ) |
| Net change | 798 | 47 | 845 |
| Balance, June 30, 2017 | $ (433 ) | $ (1,131 ) | $ (1,564 ) |
| | | | |
| Balance, December 31, 2015 | $ 774 | $ (1,186 ) | $ (412 ) |
| Net change | 2,891 | 9 | 2,900 |
| Balance, June 30, 2016 | $ 3,665 | $ (1,177 ) | $ 2,488 |

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The following table details the amounts reclassified from each component of accumulated other comprehensive loss to each component's applicable income statement line, for the three and six month periods ended June 30, 2017 and 2016:

| **Description of Accumulated Other Comprehensive Loss Component** | **Amount Reclassified from Accumulated Other Comprehensive Loss** For The Three Months Ended June 30, 2017 | 2016 | **Affected Income Statement Category** |
|---|---|---|---|
| ***Net unrealized gain on investment securities available for sale:*** | | | |
| Realization of loss on sale of investment securities available for sale | $ — | $ 43 | Net gain on sale of available for sale investment securities |
| Less: income tax benefit (expense) | — | 15 | Less: income tax expense |
| Net of income tax | $ — | $ 28 | Net of income tax |
| | | | |
| ***Unfunded pension liability:*** | | | |
| Amortization of net loss included in net periodic pension costs* | $ 24 | $ 24 | Employee benefits |
| Amortization of prior service cost included in net periodic pension costs* | — | — | Employee benefits |
| Total expense before income tax benefit | 24 | 24 | Total expense before income tax benefit |
| Less: income tax benefit | 8 | 8 | Less: income tax benefit |
| Net of income tax | $ 16 | $ 16 | Net of income tax |

| **Description of Accumulated Other Comprehensive Loss Component** | **Amount Reclassified from Accumulated Other Comprehensive Loss** | **Affected Income Statement Category** |
|---|---|---|

| | For The Six Months Ended June 30, 2017 | 2016 | |
|---|---|---|---|
| ***Net unrealized gain on investment securities available for sale:*** | | | |
| Realization of (gain) loss on sale of investment securities available for sale | $ (1 ) | $ 58 | Net (loss) gain on sale of available for sale investment securities |
| Less: income tax expense | — | 20 | Less: income tax expense |
| Net of income tax | $ (1 ) | $ 38 | Net of income tax |
| | | | |
| ***Unfunded pension liability:*** | | | |
| Amortization of net loss included in net periodic pension costs* | $ 47 | $ 48 | Employee benefits |
| Amortization of prior service cost included in net periodic pension costs* | — | — | Employee benefits |
| Total expense before income tax benefit | 47 | 48 | Total expense before income tax benefit |
| Less: income tax benefit | 16 | 17 | Less: income tax benefit |
| Net of income tax | $ 31 | $ 31 | Net of income tax |

**Note 15 - Shareholders' Equity*Accumulated other comprehensive loss components are included in the computation of net periodic pension cost. See Note 9 - Pension and Other Post-Retirement Benefit Plans*

**Note 15 - Shareholders' Equity**

**Dividend**

On July 20, 2017, the Corporation's Board of Directors declared a regular quarterly dividend of $0.22 per share payable September 1, 2017 to shareholders of record as of August 2, 2017. During the second quarter of 2017, the Corporation paid or accrued, as applicable, a regular quarterly dividend of $0.21 per share. This dividend totaled $3.6 million, based on outstanding shares and restricted stock units as of May 2, 2017 of 17,236,926 shares.

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**S-3 Shelf Registration Statement and Offerings Thereunder**

In March 2015, the Corporation filed a shelf registration statement on Form S-3 (the “Shelf Registration Statement”) to replace its 2012 Shelf Registration Statement, which was set to expire in April 2015. The Shelf Registration Statement allows the Corporation to raise additional capital through offers and sales of registered securities consisting of common stock, debt securities, warrants to purchase common stock, stock purchase contracts and units or units consisting of any combination of the foregoing securities. Using the prospectus in the Shelf Registration Statement, together with applicable prospectus supplements, the Corporation may sell, from time to time, in one or more offerings, such securities in a dollar amount up to $200 million, in the aggregate.

In addition, the Corporation has in place under its Shelf Registration Statement a Dividend Reinvestment and Stock Purchase Plan (the “Plan”), which allows it to issue up to 1,500,000 shares of registered common stock. The Plan allows for the grant of a request for waiver (“RFW”) above the Plan’s maximum investment of $120 thousand per account per year. An RFW is granted based on a variety of factors, including the Corporation’s current and projected capital needs, prevailing market prices of the Corporation’s common stock and general economic and market conditions.

**Options**

In addition to shares that may be issued through the Plan, the Corporation also issues shares through the exercise of stock options and the vesting of restricted stock units. During the six months ended June 30, 2017, 45,198 shares were issued pursuant to the exercise of stock options, increasing shareholders’ equity by $1.0 million. During the six months ended June 30, 2017, 6,300 restricted stock units vested and were issued. The increase in shareholders’ equity related to the issuance of the restricted stock units, which is recognized over the vesting period through stock based compensation expense, was $175 thousand.

**Stock Repurchases**

On August 6, 2015, the Corporation announced a stock repurchase program (the “2015 Program”) under which the Corporation may repurchase up to 1,200,000 shares of the Corporation’s common stock, at an aggregate purchase price not to exceed $40 million. During the six months ended June 30, 2017, no shares were repurchased under the 2015 Program. As of June 30, 2017, the maximum number of shares remaining authorized for repurchase under the 2015 Program was 189,300. In addition to the 2015 Program, it is the Corporation’s practice to retire shares to its treasury account upon the vesting of stock awards to certain officers in order to cover the statutory income tax withholdings related to such vestings.

**Note 16 - Accounting for Uncertainty in Income Taxes**

The Corporation recognizes the financial statement benefit of a tax position only after determining that the Corporation would be more likely than not to sustain the position following an examination. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the relevant tax authority.

The Corporation is subject to income taxes in the United States federal jurisdiction and multiple state jurisdictions. The Corporation is no longer subject to U.S. federal income tax examination by taxing authorities for years before 2013.

The Corporation’s policy is to record interest and penalties on uncertain tax positions as income tax expense. No interest or penalties were accrued for the three or six month periods ended June 30, 2017 or 2016.

**Note 17 - Fair Value Measurement**

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

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

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

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

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The Corporation's interest rate swaps are reported at fair value utilizing Level 2 inputs. Prices of these instruments are obtained through an independent pricing source utilizing pricing information which may include market observed quotations for swaps, LIBOR rates, forward rates and rate volatility. When entering into a derivative contract, the Corporation is exposed to fair value changes due to interest rate movements, and the potential non-performance of our contract counterparty. The Corporation has developed a methodology to value the non-performance risk based on internal credit risk metrics and the unique characteristics of derivative instruments, which include notional exposure rather than principle at risk and interest payment netting. The results of this methodology are used to adjust the base fair value of the instrument for the potential counterparty credit risk.

The value of the investment portfolio and interest rate swaps are determined using three broad levels of inputs:

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

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

**Level 3** – Instruments whose significant value drivers are unobservable.

These levels are not necessarily an indication of the risks or liquidity associated with these investments. The following tables summarize the assets at June 30, 2017 and December 31, 2016 that are recognized on the Corporation's balance sheet using fair value measurement determined based on the differing levels of input.

The following table sets forth the fair value of assets measured on a recurring and non-recurring basis as of June 30, 2017:

| *(dollars in millions)* | **Total** | **Level 1** | **Level 2** | **Level 3** |
| --- | --- | --- | --- | --- |
| **Assets Measured at Fair Value on a Recurring Basis:** | | | | |
| Investment securities (available for sale and trading): | | | | |
| U.S. Treasury securities | $0.1 | $0.1 | $— | $— |
| Obligations of the U.S. government agency securities | 126.5 | — | 126.5 | — |
| Obligations of state & political subdivisions | 27.5 | — | 27.5 | — |

| | | | | |
|---|---|---|---|---|
| Mortgage-backed securities | 235.7 | — | 235.7 | — |
| Collateralized mortgage obligations | 42.5 | — | 42.5 | — |
| Mutual funds | 15.4 | 15.4 | — | — |
| Other debt securities | 1.1 | — | 1.1 | — |
| Interest rate swaps | 0.8 | — | 0.8 | — |
| Total assets measured on a recurring basis at fair value | $449.6 | $15.5 | $434.1 | $— |
| **Assets Measured at Fair Value on a Non-Recurring Basis** | | | | |
| Mortgage servicing rights | $6.1 | $— | $— | $6.1 |
| Impaired loans and leases | 13.0 | — | — | 13.0 |
| Other real estate owned ("OREO") | 1.1 | — | — | 1.1 |
| Total assets measured on a non-recurring basis at fair value | $20.2 | $— | $— | $20.2 |

The following table sets forth the fair value of assets measured on a recurring and non-recurring basis as of December 31, 2016:

| *(dollars in millions)* | **Total** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| **Assets Measured at Fair Value on a Recurring Basis:** | | | | |
| Investment securities (available for sale and trading): | | | | |
| U.S. Treasury securities | $200.1 | $200.1 | $ — | |