UNIVEST CORP OF PENNSYLVANIA
Form 10-Q
August 08, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2016.
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .
Commission File Number: 0-7617

UNIVEST CORPORATION OF PENNSYLVANIA
(Exact name of registrant as specified in its charter)

Pennsylvania	23-1886144
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

14 North Main Street, Souderton, Pennsylvania 18964
(Address of principal executive offices)(Zip Code)
Registrant's telephone number, including area code: (215) 721-2400
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $5 par value	26,555,176
(Title of Class)	(Number of shares outstanding at July 29, 2016)

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	(UNAUDITED) At June 30, 2016	At December 31, 2015
ASSETS		
Cash and due from banks	$36,404	$32,356
Interest-earning deposits with other banks	8,286	28,443
Federal funds sold	48,500	—
Investment securities held-to-maturity (fair value $32,946 and $41,061 at June 30, 2016 and December 31, 2015, respectively)	32,885	40,990
Investment securities available-for-sale	254,095	329,770
Loans held for sale	4,657	4,680
Loans and leases held for investment	2,345,037	2,179,013
Less: Reserve for loan and lease losses	(17,153)	(17,628)
Net loans and leases held for investment	2,327,884	2,161,385
Premises and equipment, net	44,437	42,156
Goodwill	112,657	112,657
Other intangibles, net of accumulated amortization and fair value adjustments of $15,234 and $15,360 at June 30, 2016 and December 31, 2015, respectively	11,677	12,620
Bank owned life insurance	72,565	71,560
Funds advanced for merger settlement	98,885	—
Accrued interest receivable and other assets	54,685	42,834
Total assets	$3,107,617	$2,879,451
LIABILITIES		
Noninterest-bearing deposits	$689,916	$541,460
Interest-bearing deposits:		
Demand deposits	674,847	790,800
Savings deposits	652,129	607,694
Time deposits	360,192	454,406
Total deposits	2,377,084	2,394,360
Short-term borrowings	260,216	24,211
Subordinated notes	49,450	49,377
Accrued interest payable and other liabilities	51,707	49,929
Total liabilities	2,738,457	2,517,877
SHAREHOLDERS' EQUITY		
Common stock, $5 par value: 48,000,000 shares authorized at June 30, 2016 and December 31, 2015; 22,054,270 shares issued at June 30, 2016 and December 31, 2015; 19,557,958 and 19,530,930 shares outstanding at June 30, 2016 and December 31, 2015, respectively	110,271	110,271
Additional paid-in capital	121,399	121,280
Retained earnings	198,156	193,446
Accumulated other comprehensive loss, net of tax benefit	(14,370)	(16,708)
Treasury stock, at cost; 2,496,312 and 2,523,340 shares at June 30, 2016 and December 31, 2015, respectively	(46,296)	(46,715)

Total shareholders’ equity	369,160	361,574
Total liabilities and shareholders’ equity	$3,107,617	$2,879,451

Note: See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2016	2015	2016	2015
Interest income				
Interest and fees on loans and leases:				
Taxable	$22,311	$21,939	$44,161	$43,193
Exempt from federal income taxes	1,774	1,579	3,490	3,163
Total interest and fees on loans and leases	24,085	23,518	47,651	46,356
Interest and dividends on investment securities:				
Taxable	1,188	1,104	2,462	2,138
Exempt from federal income taxes	710	880	1,444	1,739
Interest on federal funds sold	2	—	9	2
Other interest income	9	11	37	16
Total interest income	25,994	25,513	51,603	50,251
Interest expense				
Interest on deposits	1,458	1,445	2,991	2,862
Interest on short-term borrowings	320	13	323	23
Interest on long-term borrowings	673	675	1,348	682
Total interest expense	2,451	2,133	4,662	3,567
Net interest income	23,543	23,380	46,941	46,684
Provision for loan and lease losses	830	1,141	1,156	2,215
Net interest income after provision for loan and lease losses	22,713	22,239	45,785	44,469
Noninterest income				
Trust fee income	1,997	2,154	3,862	3,974
Service charges on deposit accounts	1,056	1,039	2,054	2,102
Investment advisory commission and fee income	2,759	2,740	5,428	5,503
Insurance commission and fee income	3,503	3,434	8,061	7,580
Other service fee income	1,948	1,833	3,781	3,431
Bank owned life insurance income	535	211	1,005	564
Net gain on sales of investment securities	413	181	457	272
Net gain on mortgage banking activities	1,711	1,367	2,929	2,625
Other income	197	392	498	731
Total noninterest income	14,119	13,351	28,075	26,782
Noninterest expense				
Salaries and benefits	14,080	11,957	28,262	25,271
Commissions	2,363	2,155	4,258	3,969
Net occupancy	2,091	2,035	4,187	4,393
Equipment	2,116	1,708	4,004	3,397
Professional fees	947	1,066	1,967	1,873
Marketing and advertising	513	551	1,051	911
Deposit insurance premiums	418	422	865	834
Intangible expenses	996	893	1,766	1,679
Acquisition-related costs	1,158	41	1,372	507
Integration costs	27	110	33	1,484
Restructuring charges	—	1,642	—	1,642

Other expense	4,837	4,252	8,720	8,283
Total noninterest expense	29,546	26,832	56,485	54,243
Income before income taxes	7,286	8,758	17,375	17,008
Income taxes	2,046	2,292	4,846	4,426
Net income	$5,240	$6,466	$12,529	$12,582
Net income per share:				
Basic	$0.27	$0.33	$0.64	$0.64
Diluted	0.27	0.33	0.64	0.64
Dividends declared	0.20	0.20	0.40	0.40

Note: See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(Dollars in thousands)	Three Months Ended June 30, 2016 Before Tax Amount	2016 Tax Expense (Benefit)	2016 Net of Tax Amount	2015 Before Tax Amount	2015 Tax Expense (Benefit)	2015 Net of Tax Amount
Income	$7,286	$2,046	$5,240	$8,758	$2,292	$6,466
Other comprehensive income:						
Net unrealized gains (losses) on available-for-sale investment securities:						
Net unrealized holding gains (losses) arising during the period	2,084	730	1,354	(3,555)	(1,244)	(2,311)
Less: reclassification adjustment for net gains on sales realized in net income	(413)	(145)	(268)	(181)	(63)	(118)
Total net unrealized gains (losses) on available-for-sale investment securities	1,671	585	1,086	(3,736)	(1,307)	(2,429)
Net change in fair value of interest rate swaps used in cash flow hedges	(220)	(77)	(143)	377	132	245
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs	329	115	214	340	119	221
Accretion of prior service cost included in net periodic pension costs	(70)	(24)	(46)	(70)	(25)	(45)
Total defined benefit pension plans	259	91	168	270	94	176
Other comprehensive income (loss)	1,710	599	1,111	(3,089)	(1,081)	(2,008)
Total comprehensive income	$8,996	$2,645	$6,351	$5,669	$1,211	$4,458

(Dollars in thousands)	Six Months Ended June 30, 2016 Before Tax Amount	2016 Tax Expense (Benefit)	2016 Net of Tax Amount	2015 Before Tax Amount	2015 Tax Expense (Benefit)	2015 Net of Tax Amount
Income	$17,375	$4,846	$12,529	$17,008	$4,426	$12,582
Other comprehensive income:						
Net unrealized (losses) gains on available-for-sale investment securities:						
Net unrealized holding gains (losses) arising during the period	4,302	1,506	2,796	(1,397)	(489)	(908)
Less: reclassification adjustment for net gains on sales realized in net income	(457)	(160)	(297)	(272)	(95)	(177)
Total net unrealized gains (losses) on available-for-sale investment securities	3,845	1,346	2,499	(1,669)	(584)	(1,085)
Net change in fair value of interest rate swaps used in cash flow hedges	(765)	(268)	(497)	40	14	26
Defined benefit pension plans:						
Amortization of net actuarial loss included in net periodic pension costs	658	230	428	681	239	442
Accretion of prior service cost included in net periodic pension costs	(141)	(49)	(92)	(140)	(49)	(91)

Total defined benefit pension plans	517	181	336	541	190	351
Other comprehensive income (loss)	3,597	1,259	2,338	(1,088)	(380)	(708)
Total comprehensive income	$20,972	$6,105	$14,867	$15,920	$4,046	$11,874

Note: See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(Dollars in thousands, except share and per share data)	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Six Months Ended June 30, 2016							
Balance at December 31, 2015	19,530,930	$110,271	$121,280	$193,446	$ (16,708)	$(46,715)	$361,574
Net income	—	—	—	12,529	—	—	12,529
Other comprehensive income, net of income tax	—	—	—	—	2,338	—	2,338
Cash dividends declared ($0.40 per share)	—	—	—	(7,819)	—	—	(7,819)
Stock issued under dividend reinvestment and employee stock purchase plans	61,281	—	25	—	—	1,206	1,231
Exercise of stock options	22,667	—	(45)	—	—	422	377
Repurchase of cancelled restricted stock awards	(14,250)	—	241	—	—	(241)	—
Stock-based compensation	—	—	944	—	—	—	944
Net tax benefit on stock-based compensation	—	—	37	—	—	—	37
Purchases of treasury stock	(101,250)	—	—	—	—	(2,051)	(2,051)
Restricted stock awards granted	58,580	—	(1,083)	—	—	1,083	—
Balance at June 30, 2016	19,557,958	$110,271	$121,399	$198,156	$ (14,370)	$(46,296)	$369,160

(Dollars in thousands, except share and per share data)	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Six Months Ended June 30, 2015							
Balance at December 31, 2014	16,221,607	$91,332	$62,980	$181,851	$ (14,462)	$(37,147)	$284,554
Net income	—	—	—	12,582	—	—	12,582
Other comprehensive income, net of income tax	—	—	—	—	(708)	—	(708)
Cash dividends declared ($0.40 per share)	—	—	—	(7,902)	—	—	(7,902)
Stock issued under dividend reinvestment and employee stock purchase plans	63,502	—	30	(1)	—	1,221	1,250
Issuance of common stock, acquisition	3,787,866	18,939	57,727	—	—	—	76,666
Exercise of stock options	14,666	—	(27)	—	—	268	241
Repurchase of cancelled restricted stock awards	(17,684)	—	277	—	—	(277)	—
Stock-based compensation	—	—	813	—	—	—	813
Purchases of treasury stock	(575,771)	—	—	—	—	(11,310)	(11,310)
Restricted stock awards granted	65,755	—	(1,195)	—	—	1,195	—
Balance at June 30, 2015	19,559,941	$110,271	$120,605	$186,530	$ (15,170)	$(46,050)	$356,186

Note: See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
(Dollars in thousands)	2016	2015
Cash flows from operating activities:		
Net income	$12,529	$12,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,156	2,215
Depreciation of premises and equipment	1,903	1,937
Net gain on sales of investment securities	(457)	(272)
Net gain on mortgage banking activities	(2,929)	(2,625)
Bank owned life insurance income	(1,005)	(564)
Net accretion of acquisition accounting fair value adjustments	(303)	(1,316)
Stock-based compensation	944	813
Intangible expenses	1,766	1,679
Other adjustments to reconcile net income to cash provided by operating activities	800	321
Deferred tax expense	1,619	3,537
Originations of loans held for sale	(104,668)	(104,072)
Proceeds from the sale of loans held for sale	106,685	104,782
Contributions to pension and other postretirement benefit plans	(121)	(2,145)
Increase in accrued interest receivable and other assets	(11,532)	(3,075)
Increase in accrued interest payable and other liabilities	1,784	770
Net cash provided by operating activities	8,171	14,567
Cash flows from investing activities:		
Net cash paid due to acquisitions	—	(2,967)
Funds advanced for merger settlement	(98,885)	—
Net capital expenditures	(4,195)	(2,254)
Proceeds from maturities and calls of securities held-to-maturity	8,000	11,000
Proceeds from maturities and calls of securities available-for-sale	54,156	41,169
Proceeds from sales of securities available-for-sale	73,991	37,546
Purchases of investment securities available-for-sale	(48,647)	(85,107)
Net increase in loans and leases	(169,417)	(106,375)
Net decrease (increase) in interest-earning deposits	20,157	8,626
Net (increase) decrease in federal funds sold	(48,500)	17,442
Net cash used in investing activities	(213,340)	(80,920)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(17,162)	16,062
Net increase in short-term borrowings	235,752	19,202
Proceeds from issuance of subordinated notes	—	49,267
Payment of contingent consideration on acquisitions	(1,160)	(880)
Purchases of treasury stock	(2,051)	(11,310)
Stock issued under dividend reinvestment and employee stock purchase plans and other employee benefit programs	1,231	1,250
Proceeds from exercise of stock options, including excess tax benefits	414	289
Cash dividends paid	(7,807)	(7,220)
Net cash provided by financing activities	209,217	66,660
Net increase in cash and due from banks	4,048	307

Cash and due from banks at beginning of year	32,356	31,995
Cash and due from banks at end of period	$36,404	$32,302
Supplemental disclosures of cash flow information:		
Cash paid for interest	$5,033	$3,152
Cash paid for income taxes, net of refunds	4,348	49
Non cash transactions:		
Transfer of loans to other real estate owned	$1,952	$—
Transfer of loans to loans held for sale	—	4,000
Assets acquired through acquisitions	—	425,311
Liabilities assumed through acquisitions	—	389,782
Contingent consideration recorded as goodwill	—	1,525

Note: See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

UNIVEST CORPORATION OF PENNSYLVANIA AND SUBSIDIARIES
Notes to the Unaudited Consolidated Financial Statements
Note 1. Summary of Significant Accounting Policies
Principles of Consolidation and Basis of Presentation
The accompanying unaudited consolidated financial statements include the accounts of Univest Corporation of Pennsylvania (the Corporation or Univest) and its wholly owned subsidiaries; the Corporation’s primary subsidiary is Univest Bank and Trust Co. (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations for interim financial information. The accompanying unaudited consolidated financial statements reflect all adjustments which are of a normal recurring nature and are, in the opinion of management, necessary for a fair presentation of the financial statements for the interim periods presented. Certain prior period amounts have been reclassified to conform to the current-year presentation. Operating results for the six-month period ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ended December 31, 2016. It is suggested that these unaudited consolidated financial statements be read in conjunction with the audited financial statements and the notes thereto included in the registrant’s Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on March 4, 2016.
Use of Estimates
The preparation of the unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include fair value measurement of investment securities available-for-sale and assessment for impairment of certain investment securities, reserve for loan and lease losses, valuation of goodwill and other intangible assets, mortgage servicing rights, deferred tax assets and liabilities, benefit plans and stock-based compensation expense.
Recent Accounting Pronouncements
In June 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) to require businesses and other organizations to measure the current expected credit losses (CECL) on financial assets, such as loans, net investments in leases, certain debt securities, bond insurance and other receivables. The amendments affect entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The amendments in this ASU replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonableness and supportable information to inform credit loss estimates. An entity should apply the amendments through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (modified-retrospective approach). Acquired credit impaired loans for which the guidance in Accounting Standards Codification (ASC) Topic 310-30 has been previously applied should prospectively apply the guidance in this ASU. A prospective transition approach is required for debt securities for which an other-than-temporary impairment has been recognized before the effective date. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those years for public business entities that are SEC filers, or January 1, 2020 for the Corporation. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, it is anticipated that the allowance will increase upon adoption of CECL and that the increased allowance level will decrease regulatory capital and ratios.
In March 2016, the FASB issued an ASU to simplify and improve employee share-based payment accounting. Under the new guidance, all excess tax benefits and tax deficiencies are recognized as an income tax benefit or expense in the income statement. The additional paid-in capital pool is eliminated. Excess tax benefits and deficiencies are

recognized in the period they are deducted on the income tax return. Excess tax benefits are recorded along with other income tax cash flows as an operating activity in the statement of cash flows. The recognition of excess tax benefits and deficiencies and changes to diluted earnings per share are to be applied prospectively when this ASU is adopted. For tax benefits that were not previously recognized because the related tax deduction had not reduced taxes payable, entities record a cumulative-effect adjustment in retained earnings as of the beginning of the year of adoption. The Corporation does not record deferred tax benefits on incentive stock options when expense is accrued, therefore, the Corporation will not have a cumulative-effect adjustment when this ASU is adopted. Changes to the treatment of forfeitures will not impact the Corporation as the historical assumption for forfeitures was immaterial and not taken into account during valuations; the Corporation has recorded forfeitures as they occurred which is consistent with the new guidance. The ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities, or January 1, 2017 for the Corporation. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. The Corporation does not anticipate that the adoption of this ASU will have a material impact on the financial statements.

In March 2016, the FASB issued an ASU to amend the guidance for hedge accounting to clarify that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in this ASU are effective for financial statements of public businesses issued for fiscal years and interim periods within those years beginning after December 15, 2016, or January 1, 2017 for the Corporation. The Corporation does not anticipate the adoption of this ASU will have any impact on the financial statements.

In February 2016, the FASB issued an ASU to revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. Disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that commence before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. The ASU is effective for the first interim period within annual periods beginning after December 15, 2018, or January 1, 2019, with early adoption permitted. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, the adoption of this ASU will impact the balance sheet for the recording of assets and liabilities for operating leases; any initial or continued impact of the recording of assets will have an impact on risk-based capital ratios under current regulatory guidance and possibly equity ratios.

In January 2016, the FASB issued an ASU to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The ASU will require equity investments to be measured at fair value with changes in fair value recognized in net income. When fair value is not readily determinable, an entity may elect to measure the equity investment at cost, minus impairment, plus or minus any change in the investment’s observable price. The ASU will simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. A valuation allowance on a deferred tax asset related to available-for-sale securities will need to be included. For financial liabilities that are measured at fair value, the ASU requires an entity to present separately, in other comprehensive income, any change in fair value resulting from a change in instrument-specific credit risk. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. The amendments in this ASU are effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017 or January 1, 2018 for the Corporation. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements.

In September 2015, the FASB issued an ASU simplifying the accounting for measurement-period adjustments related to business combinations. The ASU eliminates the requirement to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. Under this ASU, measurement-period adjustments are calculated as if they were known at the acquisition date, but are recognized in the reporting period in which they are determined. The ASU requires additional disclosures about the impact on current period income statement line items of adjustments that would have been recognized in prior periods if prior period information had been revised. The amendments in this ASU were effective for financial statements of public businesses issued for fiscal years and interim periods within those years beginning after December 15, 2015, or January 1, 2016 for the Corporation. The adoption of this guidance did not impact the Corporation's financial statements.

In April 2015, the FASB issued an ASU simplifying the presentation of debt issuance costs. The ASU requires that debt issuance costs related to a recognized debt liability shall be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The costs will continue to be amortized to interest expense using the effective interest method. The ASU was effective for financial statements of public businesses issued for fiscal years beginning after December 15, 2015, or January 1, 2016 for the Corporation. The adoption of this ASU did not impact the Corporation's balance sheet presentation as the Corporation followed this presentation consistent with the guidance in FASB Concepts Statement No. 6.

In May 2014, the FASB issued an ASU regarding revenue from contracts with customers which clarifies the principles for recognizing revenue and develops a common standard for U.S. GAAP and International Financial Reporting Standards. The ASU establishes a core principle that would require an entity to identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. The ASU provides for improved disclosure requirements that require entities to disclose sufficient information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB issued an ASU clarifying the implementation guidance on the principal-versus-agent considerations in the revenue recognition standard by instructing the participants in the sale to determine whether they control the good or service and are entitled to the gross amount of the transaction or are acting as an agent and should collect only a fee or commission for arranging the sale. In April 2016, the FASB issued an ASU clarifying the identification of performance obligations and licensing. In May 2016, the FASB issued an ASU providing some limited improvements and practical expedients. The original effective date of the guidance relating to revenue from contracts with customers was deferred in August 2015 by one year. This guidance is now effective for fiscal years and interim periods within those years beginning after December 15, 2017, or January 1, 2018 for the Corporation. The Corporation is in the process of evaluating the impact of the adoption of this guidance on the Corporation's financial statements; however, it is anticipated the impact will be only related to timing.

Note 2. Acquisition

Fox Chase Bancorp

On December 8, 2015, the Corporation and Fox Chase Bancorp, Inc. (Fox Chase), parent company of Fox Chase Bank, entered into an Agreement and Plan of Merger which provided for the merger of Fox Chase with and into the Corporation in a cash and stock transaction with an aggregate value of approximately $243.0 million based on the Corporation's June 30, 2016 closing share price. The transaction is expected to qualify as a tax-free reorganization for federal income tax purposes. On July 1, 2016, the Corporation completed its acquisition of Fox Chase. See Note 15, "Subsequent Event" for additional information.

In January 2016, the Corporation approved a discretionary overnight federal funds line to Fox Chase Bank at a rate of one-month LIBOR plus 0.05%. At June 30, 2016, the Corporation had outstanding federal funds sold to Fox Chase Bank of $48.5 million. During the six months ended June 30, 2016, average federal funds sold to Fox Chase Bank were $3.5 million.

During the first half of 2016, a purported Fox Chase shareholder filed a purported class action derivative complaint in the Court of Common Pleas of Montgomery County, Pennsylvania. The lawsuit named as defendants Fox Chase, each member of Fox Chase’s board of directors and Univest. The lawsuit alleged that the Fox Chase directors breached their fiduciary duties by agreeing to the merger, that the directors and executive officers had conflicts of interest related to the transaction, that the registration filed on February 26, 2016 failed to disclose material information related to the transaction, and that Univest aided and abetted the alleged breaches of fiduciary duty. During July 2016, the case was dismissed with prejudice.

Table of Contents

Note 3. Investment Securities

The following table shows the amortized cost and the estimated fair value of the held-to-maturity securities and available-for-sale securities at June 30, 2016 and December 31, 2015, by contractual maturity within each type:

	At June 30, 2016				At December 31, 2015			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held-to-Maturity								
Corporate bonds:								
Within 1 year	$22,879	$ 47	$—	$22,926	$21,047	$ 134	$—	$21,181
After 1 year to 5 years	10,006	22	(8)	10,020	19,943	1	(64)	19,880
	32,885	69	(8)	32,946	40,990	135	(64)	41,061
Total	$32,885	$ 69	$(8)	$32,946	$40,990	$ 135	$(64)	$41,061
Securities Available-for-Sale								
U.S. treasuries:								
After 1 year to 5 years	$—	$ —	$—	$—	$4,978	$ —	$(91)	$4,887
	—	—	—	—	4,978	—	(91)	4,887
U.S. government corporations and agencies:								
Within 1 year	10,067	23	—	10,090	10,389	—	(29)	10,360
After 1 year to 5 years	37,043	313	—	37,356	92,148	26	(378)	91,796
	47,110	336	—	47,446	102,537	26	(407)	102,156
State and political subdivisions:								
After 1 year to 5 years	16,818	150	(8)	16,960	17,362	80	(29)	17,413
After 5 years to 10 years	50,727	1,718	(11)	52,434	47,969	1,188	(32)	49,125
Over 10 years	28,133	1,340	—	29,473	34,334	1,160	—	35,494
	95,678	3,208	(19)	98,867	99,665	2,428	(61)	102,032
Residential mortgage-backed securities:								
After 1 year to 5 years	—	—	—	—	9,713	12	(13)	9,712
After 5 years to 10 years	57	1	—	58	60	—	—	60
Over 10 years	3,478	99	—	3,577	3,517	65	—	3,582
	3,535	100	—	3,635	13,290	77	(13)	13,354
Collateralized mortgage obligations:								
Over 10 years	2,930	—	(2)	2,928	3,215	—	(82)	3,133
	2,930	—	(2)	2,928	3,215	—	(82)	3,133
Corporate bonds:								
Within 1 year	250	—	—	250	250	—	—	250
After 1 year to 5 years	19,032	241	(4)	19,269	19,446	25	(158)	19,313
After 5 years to 10 years	15,204	76	(3)	15,277	10,148	—	(266)	9,882
Over 10 years	60,000	709	(2,060)	58,649	60,000	—	(2,770)	57,230
	94,486	1,026	(2,067)	93,445	89,844	25	(3,194)	86,675
Money market mutual funds:								
No stated maturity	7,009	—	—	7,009	16,726	—	—	16,726
	7,009	—	—	7,009	16,726	—	—	16,726
Equity securities:								
No stated maturity	413	352	—	765	426	381	—	807
	413	352	—	765	426	381	—	807

Total	$251,161	$5,022	$(2,088)	$254,095	$330,681	$2,937	$(3,848)	$329,770

Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations without call or prepayment penalties. Unrealized losses in investment securities at June 30, 2016 and December 31, 2015 do not represent other-than-temporary impairments in management's judgment..
Securities with a carrying value of $128.4 million and $210.1 million at June 30, 2016 and December 31, 2015, respectively, were pledged to secure public deposits and for other purposes as required by law.

10

Table of Contents

The following table presents information related to sales of securities available-for-sale during the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,	
(Dollars in thousands)	2016	2015
Securities available-for-sale:		
Proceeds from sales	$73,991	$37,546
Gross realized gains on sales	539	294
Gross realized losses on sales	82	22
Tax expense related to net realized gains on sales	160	95

Management evaluates debt securities, which are comprised of U.S. government, government sponsored agencies, municipalities, corporate bonds and other issuers, for other-than-temporary impairment by considering the current economic conditions, the length of time and the extent to which the fair value has been less than cost, market interest rates and the bond rating of each security. All of the debt securities are rated as investment grade and management believes that it will not incur any losses. The unrealized losses on the Corporation's investments in debt securities are temporary in nature since they are primarily related to market interest rates and are not related to the underlying credit quality of the issuers. The Corporation does not have the intent to sell the debt securities and believes it is more likely than not, that it will not have to sell the securities before recovery of their cost basis. The Corporation did not recognize any other-than-temporary impairment charges on debt securities for the six months ended June 30, 2016 and 2015.

The Corporation evaluates its equity securities for other-than-temporary impairment and recognizes other-than-temporary impairment charges when it has determined that it is probable that the fair value of certain equity securities will not recover to the Corporation's cost basis in the individual securities within a reasonable period of time due to a decline in the financial stability of the underlying companies. Management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. The Corporation has the intent and ability to hold these securities until recovery of the Corporation's cost basis occurs. The Corporation did not recognize any other-than-temporary impairment charges on its equity portfolio during the six months ended June 30, 2016 and 2015.

At June 30, 2016 and December 31, 2015, there were no investments in any single non-federal issuer representing more than 10% of shareholders' equity.

Table of Contents

The following table shows the fair value of securities that were in an unrealized loss position at June 30, 2016 and December 31, 2015 by the length of time those securities were in a continuous loss position:

(Dollars in thousands)	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At June 30, 2016						
Securities Held-to-Maturity						
Corporate bonds	$—	$ —	$4,997	$ (8)	$4,997	$ (8)
Total	$—	$ —	$4,997	$ (8)	$4,997	$ (8)
Securities Available-for-Sale						
State and political subdivisions	$1,287	$ (2)	$2,622	$ (17)	$3,909	$ (19)
Collateralized mortgage obligations	—	—	2,928	(2)	2,928	(2)
Corporate bonds	—	—	43,680	(2,067)	43,680	(2,067)
Total	$1,287	$ (2)	$49,230	$ (2,086)	$50,517	$ (2,088)
At December 31, 2015						
Securities Held-to-Maturity						
Corporate bonds	$12,078	$ (9)	$4,953	$ (55)	$17,031	$ (64)
Total	$12,078	$ (9)	$4,953	$ (55)	$17,031	$ (64)
Securities Available-for-Sale						
U.S. treasuries	$—	$ —	$4,887	$ (91)	$4,887	$ (91)
U.S. government corporations and agencies	72,157	(379)	4,972	(28)	77,129	(407)
State and political subdivisions	10,251	(49)	1,335	(12)	11,586	(61)
Residential mortgage-backed securities	4,751	(13)	—	—	4,751	(13)
Collateralized mortgage obligations	—	—	3,133	(82)	3,133	(82)
Corporate bonds	72,234	(2,941)	10,669	(253)	82,903	(3,194)
Total	$159,393	$ (3,382)	$24,996	$ (466)	$184,389	$ (3,848)

Note 4. Loans and Leases

Summary of Major Loan and Lease Categories

(Dollars in thousands)	At June 30, 2016		
	Originated	Acquired	Total
Commercial, financial and agricultural	$559,364	$20,096	$579,460
Real estate-commercial	813,925	113,033	926,958
Real estate-construction	97,967	2,112	100,079
Real estate-residential secured for business purpose	122,373	107,849	230,222
Real estate-residential secured for personal purpose	200,746	3,085	203,831
Real estate-home equity secured for personal purpose	134,170	10,335	144,505
Loans to individuals	30,880	306	31,186
Lease financings	128,796	—	128,796
Total loans and leases held for investment, net of deferred income	$2,088,221	$256,816	$2,345,037
Unearned lease income, included in the above table	$(14,539)	$—	$(14,539)
Net deferred costs, included in the above table	4,987	—	4,987
Overdraft deposits included in the above table	72	—	72

12

Table of Contents

	At December 31, 2015		
(Dollars in thousands)	Originated	Acquired	Total
Commercial, financial and agricultural	$479,980	$24,535	$504,515
Real estate-commercial	759,342	126,550	885,892
Real estate-construction	91,904	4,637	96,541
Real estate-residential secured for business purpose	94,280	124,503	218,783
Real estate-residential secured for personal purpose	177,850	3,305	181,155
Real estate-home equity secured for personal purpose	125,361	11,594	136,955
Loans to individuals	29,406	326	29,732
Lease financings	125,440	—	125,440
Total loans and leases held for investment, net of deferred income	$1,883,563	$295,450	$2,179,013
Unearned lease income, included in the above table	$(13,829)	$—	$(13,829)
Net deferred costs, included in the above table	4,244	—	4,244
Overdraft deposits included in the above table	35	—	35

Overdraft deposits are re-classified as loans and are included in the total loans and leases on the balance sheet.

The carrying amount of acquired loans at June 30, 2016 totaled $256.8 million, including $942 thousand of loans acquired with deteriorated credit quality, or acquired credit impaired loans from the Valley Green Bank acquisition. Acquired credit impaired loans are accounted for in accordance with Accounting Standards Codification (ASC) Topic 310-30.

The outstanding principal balance and carrying amount for acquired credit impaired loans at June 30, 2016 and December 31, 2015 were as follows:

(Dollars in thousands)	At June 30, 2016	At December 31, 2015
Outstanding principal balance	$1,814	$ 3,551
Carrying amount	942	1,253
Allowance for loan losses	—	8

The following table presents the changes in accretable yield on acquired credit impaired loans:

(Dollars in thousands)	Six Months Ended June 30, 2016
Beginning of period	$ 144
Reclassification from nonaccretable difference	133
Accretable yield amortized to interest income	(184)
Disposals	(34)
End of period	$ 59

13

Table of Contents

Age Analysis of Past Due Loans and Leases

The following presents, by class of loans and leases, an aging of past due loans and leases, loans and leases which are current and the recorded investment in loans and leases 90 days or more past due which are accruing interest at June 30, 2016 and December 31, 2015:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or more Past Due	Total Past Due	Current	Acquired Credit Impaired	Total Loans and Leases Held for Investment	Recorded Investment 90 Days or more Past Due and Accruing Interest
At June 30, 2016								
Commercial, financial and agricultural	$813	$19	$1,758	$2,590	$576,870	$—	$579,460	$ —
Real estate—commercial real estate and construction:								
Commercial real estate	606	—	626	1,232	925,546	180	926,958	—
Construction	—	—	—	—	100,079	—	100,079	—
Real estate—residential and home equity:								
Residential secured for business purpose	2,414	1,025	582	4,021	225,439	762	230,222	—
Residential secured for personal purpose	262	—	308	570	203,261	—	203,831	—
Home equity secured for personal purpose	1,094	40	687	1,821	142,684	—	144,505	77
Loans to individuals	168	54	155	377	30,809	—	31,186	155
Lease financings	1,835	556	1,077	3,468	125,328	—	128,796	516
Total	$7,192	$1,694	$5,193	$14,079	$2,330,016	$942	$2,345,037	$ 748
At December 31, 2015								
Commercial, financial and agricultural	$864	$298	$4,279	$5,441	$498,757	$317	$504,515	$ —
Real estate—commercial real estate and construction:								
Commercial real estate	12,103	—	1,102	13,205	872,174	513	885,892	—
Construction	—	—	—	—	96,541	—	96,541	—
Real estate—residential and home equity:								
Residential secured for business purpose	1,406	2,356	727	4,489	213,871	423	218,783	—
Residential secured for personal purpose	990	69	309	1,368	179,787	—	181,155	—
Home equity secured for personal purpose	777	52	174	1,003	135,952	—	136,955	—
Loans to individuals	198	97	173	468	29,264	—	29,732	173
Lease financings	1,294	652	646	2,592	122,848	—	125,440	206
Total	$17,632	$3,524	$7,410	$28,566	$2,149,194	$1,253	$2,179,013	$ 379

14

Table of Contents

Non-Performing Loans and Leases

The following presents, by class of loans and leases, non-performing loans and leases at June 30, 2016 and December 31, 2015:

(Dollars in thousands)	At June 30, 2016 Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Loans and Leases 90 Days or more Past Due and Accruing Interest	Total Non-Performing Loans and Leases	At December 31, 2015 Nonaccrual Loans and Leases*	Accruing Troubled Debt Restructured Loans and Lease Modifications	Loans and Leases 90 Days or more Past Due and Accruing Interest	Total Non-Performing Loans and Leases
Commercial, financial and agricultural	$5,463	$ 1,425	$ —	$ 6,888	$6,915	$ 1,602	$ —	$ 8,517
Real estate—commercial real estate and construction:								
Commercial real estate	3,960	2,173	—	6,133	4,314	2,449	—	6,763
Real estate—residential and home equity:								
Residential secured for business purpose	2,251	815	—	3,066	1,863	763	—	2,626
Residential secured for personal purpose	409	—	—	409	376	421	—	797
Home equity secured for personal purpose	620	—	77	697	275	—	—	275
Loans to individuals	—	—	155	155	—	—	173	173
Lease financings	562	—	516	1,078	440	10	206	656
Total	$13,265	$ 4,413	$ 748	$ 18,426	$14,183	$ 5,245	$ 379	$ 19,807

* Includes nonaccrual troubled debt restructured loans and lease modifications of $1.4 million and $93 thousand at June 30, 2016 and December 31, 2015, respectively.

Credit Quality Indicators

The following tables present by class, the recorded investment in loans and leases held for investment by credit quality indicator at June 30, 2016 and December 31, 2015.

The Corporation employs a ten (10) grade risk rating system related to the credit quality of commercial loans and residential real estate loans secured for a business purpose of which the first six categories are pass categories (credits not adversely rated). The following is a description of the internal risk ratings and the likelihood of loss related to each risk rating. Loans with risk ratings of one through five are reviewed based on the relationship dollar amount with the borrower: loans with a relationship total of $2.5 million or greater are reviewed quarterly; loans with a relationship balance of less than $2.5 million but greater than $500 thousand are reviewed annually based on the borrower's fiscal year; loans with a relationship balance of less than $500 thousand are reviewed only if the loan becomes 60 days or more past due. Loans with a risk rating of six are also reviewed based on the relationship dollar amount with the borrower: loans with a relationship balance of $2.0 million or greater are reviewed quarterly; loans with a relationship balance of less than $2.0 million but greater than $500 thousand are reviewed annually; loans with a relationship balance of less than $500 thousand are reviewed only if the loan becomes 60 days or more past due. Loans with a risk rating of seven are reviewed at least quarterly, and as often as monthly, at management's discretion. Loans with risk ratings of eight through ten are reviewed monthly.

1. Cash Secured—No credit risk
2. Fully Secured—Negligible credit risk
3. Strong—Minimal credit risk
4. Satisfactory—Nominal credit risk
5. Acceptable—Moderate credit risk
6. Pre-Watch—Marginal, but stable credit risk
7. Special Mention—Potential weakness
8. Substandard—Well-defined weakness
9. Doubtful—Collection in-full improbable
10. Loss—Considered uncollectible

Table of Contents

Commercial Credit Exposure Credit Risk by Internally Assigned Grades
The following table presents classifications for originated loans:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial	Real Estate—Construction	Real Estate—Residential Secured for Business Purpose	Total
At June 30, 2016					
Grade:					
1. Cash secured/ 2. Fully secured	$ 421	$ —	$ 6,335	$ —	$6,756
3. Strong	17,282	2,781	—	—	20,063
4. Satisfactory	31,286	37,333	450	256	69,325
5. Acceptable	410,312	578,714	82,780	107,227	1,179,033
6. Pre-watch	67,282	129,351	8,188	10,435	215,256
7. Special Mention	6,297	19,031	—	161	25,489
8. Substandard	26,484	46,715	214	4,294	77,707
9. Doubtful	—	—	—	—	—
10.Loss	—	—	—	—	—
Total	$ 559,364	$ 813,925	$ 97,967	$ 122,373	$1,593,629
At December 31, 2015					
Grade:					
1. Cash secured/ 2. Fully secured	$ 968	$ —	$ 5,417	$ —	$6,385
3. Strong	17,328	10,877	—	—	28,205
4. Satisfactory	36,697	36,023	450	9	73,179
5. Acceptable	328,140	530,766	72,630	78,659	1,010,195
6. Pre-watch	61,098	119,117	13,262	7,161	200,638
7. Special Mention	6,074	20,286	—	2,347	28,707
8. Substandard	29,675	42,273	145	6,104	78,197
9. Doubtful	—	—	—	—	—
10.Loss	—	—	—	—	—
Total	$ 479,980	$ 759,342	$ 91,904	$ 94,280	$1,425,506

Table of Contents

The following table presents classifications for acquired loans:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial	Real Estate—Construction	Real Estate—Residential Secured for Business Purpose	Total
At June 30, 2016					
Grade:					
1. Cash secured/ 2. Fully secured	$ 1,398	$ —	$ —	$ —	$1,398
3. Strong	—	—	—	—	—
4. Satisfactory	1,146	2,162	—	—	3,308
5. Acceptable	14,604	88,291	2,112	94,424	199,431
6. Pre-watch	2,067	13,839	—	7,711	23,617
7. Special Mention	—	7,716	—	3,440	11,156
8. Substandard	881	1,025	—	2,274	4,180
9. Doubtful	—	—	—	—	—
10.Loss	—	—	—	—	—
Total	$ 20,096	$ 113,033	$ 2,112	$ 107,849	$243,090
December 31, 2015					
Grade:					
1. Cash secured/ 2. Fully secured	$ 1,411	$ —	$ —	$ —	$1,411
3. Strong	—	—	—	—	—
4. Satisfactory	1,181	3,561	—	608	5,350
5. Acceptable	18,446	102,122	4,637	113,002	238,207
6. Pre-watch	2,273	10,365	—	8,153	20,791
7. Special Mention	417	8,853	—	367	9,637
8. Substandard	807	1,649	—	2,373	4,829
9. Doubtful	—	—	—	—	—
10.Loss	—	—	—	—	—
Total	$ 24,535	$ 126,550	$ 4,637	$ 124,503	$280,225

Credit Exposure—Real Estate—Residential Secured for Personal Purpose, Real Estate—Home Equity Secured for Personal Purpose, Loans to individuals, Lease Financing Credit Risk Profile by Payment Activity

The Corporation monitors the credit risk profile by payment activity for the following classifications of loans and leases: residential real estate loans secured for a personal purpose, home equity loans secured for a personal purpose, loans to individuals and lease financings. Nonperforming loans and leases are loans past due 90 days or more, loans and leases on nonaccrual of interest and troubled debt restructured loans and lease modifications. Performing loans and leases are reviewed only if the loan becomes 60 days or more past due. Nonperforming loans and leases are reviewed monthly. Performing loans and leases have a nominal to moderate risk of loss. Nonperforming loans and leases are loans or leases with a well-defined weakness and where collection in-full is unlikely.

The following table presents classifications for originated loans:

(Dollars in thousands)	Real Estate—Residential Secured for Personal Purpose	Real Estate—Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financing	Total
At June 30, 2016					
Performing	$ 200,337	$ 133,473	$ 30,725	$127,718	$492,253
Nonperforming	409	697	155	1,078	2,339
Total	$ 200,746	$ 134,170	$ 30,880	$128,796	$494,592
At December 31, 2015					
Performing	$ 177,053	$ 125,086	$ 29,233	$124,784	$456,156
Nonperforming	797	275	173	656	1,901

Total	$ 177,850	$ 125,361	$ 29,406	$125,440	$458,057

Table of Contents

The following table presents classifications for acquired loans:

(Dollars in thousands)	Real Estate— Residential Secured for Personal Purpose	Real Estate— Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financing	Total
At June 30, 2016					
Performing	$ 3,085	$ 10,335	$ 306	$ —	$ 13,726
Nonperforming	—	—	—	—	—
Total	$ 3,085	$ 10,335	$ 306	$ —	$ 13,726
At December 31, 2015					
Performing	$ 3,305	$ 11,594	$ 326	$ —	$ 15,225
Nonperforming	—	—	—	—	—
Total	$ 3,305	$ 11,594	$ 326	$ —	$ 15,225

Risks associated with lending activities include, among other things, the impact of changes in interest rates and economic conditions, which may adversely impact the ability of borrowers to repay outstanding loans, and impact the value of the associated collateral.

Commercial, financial and agricultural loans, commercial real estate loans, construction loans and residential real estate loans with a business purpose are generally perceived as having more risk of default than residential real estate loans with a personal purpose and consumer loans. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties and factors affecting residential real estate borrowers.

Commercial, financial and agricultural business loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business. In addition, the collateral securing the loans often depreciates over time, is difficult to appraise and liquidate and fluctuates in value based on the success of the business.

Risk of loss on a construction loan depends largely upon whether our initial estimate of the property's value at completion of construction equals or exceeds the cost of the property construction (including interest). During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral. Included in real estate-construction is track development financing. Risk factors related to track development financing include the demand for residential housing and the real estate valuation market. When projects move slower than anticipated, the properties may have significantly lower values than when the original underwriting was completed, resulting in lower collateral values to support the loan. Extended time frames also cause the interest carrying cost for a project to be higher than the builder projected, negatively impacting the builder's profit and cash flow and, therefore, their ability to make principal and interest payments.

Commercial real estate loans and residential real estate loans with a business purpose secured by owner-occupied properties are dependent upon the successful operation of the borrower's business. If the operating company suffers difficulties in terms of sales volume and/or profitability, the borrower's ability to repay the loan may be impaired. Loans secured by properties where repayment is dependent upon payment of rent by third party tenants or the sale of the property may be impacted by loss of tenants, lower lease rates needed to attract new tenants or the inability to sell a completed project in a timely fashion and at a profit.

Commercial, financial and agricultural loans, commercial real estate loans, construction loans and residential real estate loans secured for a business purpose are more susceptible to a risk of loss during a downturn in the business cycle. While the Corporation has strict underwriting, review, and monitoring procedures in place, these procedures cannot eliminate all of the risks related to these loans.

The Corporation focuses on both assessing the borrower’s capacity and willingness to repay and on obtaining sufficient collateral. Commercial, financial and agricultural loans are generally secured by the borrower’s assets and by personal guarantees. Commercial real estate and residential real estate loans secured for a business purpose are originated primarily within the Southeastern Pennsylvania market area at conservative loan-to-value ratios and often with a guarantee of the borrowers.

Table of Contents

Management closely monitors the composition and quality of the total commercial loan portfolio to ensure that any credit concentrations by borrower or industry are closely monitored.

The Corporation originates fixed-rate and adjustable-rate real estate-residential mortgage loans that are secured by the underlying 1-to-4 family residential properties for personal purposes. Credit risk exposure in this area of lending is minimized by the evaluation of the credit worthiness of the borrower, including debt-to-equity ratios, credit scores and adherence to underwriting policies that emphasize conservative loan-to-value ratios of generally no more than 80%. Residential mortgage loans granted in excess of the 80% loan-to-value ratio criterion are generally insured by private mortgage insurance.

In the real estate-home equity loan portfolio secured for a personal purpose, credit exposure is minimized by the evaluation of the creditworthiness of the borrower, including debt-to-equity ratios, credit scores and adherence to the Corporation’s underwriting policies. Combined loan-to-value ratios are generally limited to 80%, but increased to 85% for the Corporation’s strongest profile borrower. Other credit considerations and compensating factors may support higher combined loan-to-value ratios.

Credit risk for consumer loans is controlled by strict adherence to underwriting standards that consider debt-to-income levels and the creditworthiness of the borrower and, if secured, collateral values. These loans are included within the portfolio of loans to individuals.

The primary risks that are involved with lease financing receivables are credit underwriting and borrower industry concentrations. The Corporation has strict underwriting, review, and monitoring procedures in place to mitigate this risk. Risk also lies in the residual value of the underlying equipment. Residual values are subject to judgments as to the value of the underlying equipment that can be affected by changes in economic and market conditions and the financial viability of the residual guarantors and insurers. To the extent not guaranteed or assumed by a third party, or otherwise insured against, the Corporation bears the risk of ownership of the leased assets. This includes the risk that the actual value of the leased assets at the end of the lease term will be less than the residual value. The Corporation greatly reduces this risk primarily by using $1.00 buyout leases, in which the entire cost of the leased equipment is included in the contractual payments, leaving no residual payment at the end of the lease term.

Table of Contents

Reserve for Loan and Lease Losses and Recorded Investment in Loans and Leases

The following presents, by portfolio segment, a summary of the activity in the reserve for loan and lease losses, the balance in the reserve for loan and lease losses disaggregated on the basis of impairment method and the recorded investment in loans and leases disaggregated on the basis of impairment method for the three and six months ended June 30, 2016 and 2015:

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial and Construction	Real Estate—Residential Secured for Business Purpose	Real Estate—Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
Three Months Ended June 30, 2016								
Reserve for loan and lease losses:								
Beginning balance	$ 5,630	$ 6,471	$ 747	$ 1,312	$ 356	$ 922	$ 1,014	$ 16,452
Charge-offs	(346)	(179)	(27)	(10)	(108)	(160)	N/A	(830)
Recoveries	515	9	34	34	30	79	N/A	701
(Recovery of provision) provision	(11)	1,070	(698)	(34)	133	280	(87)	653
Provision (recovery of provision) for acquired credit impaired loans	—	178	—	(1)	—	—	—	177
Ending balance	$ 5,788	$ 7,549	$ 56	$ 1,301	$ 411	$ 1,121	$ 927	$ 17,153
Three Months Ended June 30, 2015								
Reserve for loan and lease losses:								
Beginning balance	$ 6,712	$ 9,648	$ 668	$ 1,128	$ 365	$ 1,013	$ 1,400	$ 20,934
Charge-offs*	(1,038)	(1,348)	(24)	(107)	(64)	(189)	N/A	(2,770)
Recoveries	115	91	7	—	41	43	N/A	297
Provision (recovery of provision)	1,058	(590)	(35)	167	47	258	236	1,141
Ending balance	$ 6,847	$ 7,801	$ 616	$ 1,188	$ 389	$ 1,125	$ 1,636	$ 19,602
Six Months Ended June 30, 2016								
Reserve for loan and lease losses:								
Beginning balance	$ 6,418	$ 6,572	$ 763	$ 1,575	$ 346	$ 1,042	$ 912	$ 17,628
Charge-offs	(1,827)	(205)	(265)	(56)	(184)	(365)	N/A	(2,902)
Recoveries	965	16	53	51	63	123	N/A	1,271
Provision (recovery of provision)	232	988	(495)	(267)	186	321	15	980
Provision (recovery of provision) for acquired credit impaired loans	—	178	—	(2)	—	—	—	176
Ending balance	$ 5,788	$ 7,549	$ 56	$ 1,301	$ 411	$ 1,121	$ 927	$ 17,153

Six Months Ended June 30, 2015								
Reserve for loan and lease losses:								
Beginning balance	$ 6,920	$ 8,943	$ 763	$ 1,124	$ 360	$ 985	$ 1,567	$ 20,662
Charge-offs*	(1,338)	(1,696)	(24)	(138)	(248)	(419)	N/A	(3,863)
Recoveries	225	156	13	1	89	104	N/A	588
Provision (recovery of provision)	1,040	398	(136)	201	188	455	69	2,215
Ending balance	$ 6,847	$ 7,801	$ 616	$ 1,188	$ 389	$ 1,125	$ 1,636	$ 19,602

N/A – Not applicable

*Includes charge-offs of $1.3 million on two real estate construction loans for one borrower which were subsequently transferred to loans held for sale in the second quarter of 2015.

Table of Contents

(Dollars in thousands)	Commercial, Financial and Agricultural	Real Estate—Commercial and Construction	Real Estate—Residential Secured for Business Purpose	Real Estate—Residential and Home Equity Secured for Personal Purpose	Loans to Individuals	Lease Financings	Unallocated	Total
At June 30, 2016								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 390	$ 4	$ 16	$ —	$ —	$ —	N/A	$ 410
Ending balance: collectively evaluated for impairment	5,398	7,545	40	1,301	411	1,121	927	16,743
Total ending balance	$ 5,788	$ 7,549	$ 56	$ 1,301	$ 411	$ 1,121	$ 927	$ 17,153
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	$ 12,472	$ 26,761	$ 3,772	$ 1,029	$ —	$ —		$ 44,034
Ending balance: collectively evaluated for impairment	546,892	885,131	118,601	333,887	30,880	128,796		2,044,187
Acquired non-credit impaired loans	20,096	114,965	107,087	13,420	306	—		255,874
Acquired credit impaired loans	—	180	762	—	—	—		942
Total ending balance	$ 579,460	$ 1,027,037	$ 230,222	$ 348,336	$ 31,186	$ 128,796		$ 2,345,037
At June 30, 2015								
Reserve for loan and lease losses:								
Ending balance: individually evaluated for impairment	$ 444	$ —	$ —	$ —	$ —	$ —	N/A	$ 444
Ending balance: collectively evaluated for impairment	6,403	7,801	616	1,188	389	1,125	1,636	19,158
Total ending balance	$ 6,847	$ 7,801	$ 616	$ 1,188	$ 389	$ 1,125	$ 1,636	$ 19,602
Loans and leases held for investment:								
Ending balance: individually evaluated for impairment	$ 15,409	$ 18,956	$ 3,633	$ 949	$ —	$ —		$ 38,947
Ending balance: collectively evaluated for impairment	469,367	758,024	48,290	288,263	28,070	120,597		1,712,611
	26,880	175,583	135,480	16,135	345	—		354,423

Acquired non-credit impaired loans							
Acquired credit impaired loans	304	1,021	491	60	—	—	1,876
Total ending balance	$511,960	$953,584	$187,894	$305,407	$28,415	$120,597	$2,107,857

N/A – Not applicable

Subsequent to the acquisition date, the methods utilized to estimate the required allowance for loan losses for acquired non-impaired loans is similar to originated loans, however, the Corporation records a provision for loan loss only when the required allowance exceeds the remaining unamortized credit mark. The present value of any decreases in expected cash flows after the acquisition date of purchased impaired loans will generally result in an impairment charge recorded as a provision for loan loss, resulting in an increase to the allowance.

Table of Contents

Impaired Loans

The following presents, by class of loans, the recorded investment and unpaid principal balance of impaired loans , the amounts of the impaired loans for which there is not an allowance for credit losses and the amounts for which there is an allowance for credit losses at June 30, 2016 and December 31, 2015. The impaired loans exclude loans acquired with deteriorated credit quality.

	At June 30, 2016			At December 31, 2015		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance recorded:						
Commercial, financial and agricultural	$11,439	$13,260		$10,337	$13,318	
Real estate—commercial real estate	26,497	27,395		30,088	30,996	
Real estate—residential secured for business purpose	3,612	3,903		4,597	4,717	
Real estate—residential secured for personal purpose	409	434		545	554	
Real estate—home equity secured for personal purpose	620	620		170	170	
Total impaired loans with no allowance recorded	$42,577	$45,612		$45,737	$49,755	
Impaired loans with an allowance recorded:						
Commercial, financial and agricultural	$1,033	$1,033	$ 390	$2,544	$2,544	$ 208
Real estate—commercial real estate	264	264	4	—	—	—
Real estate—residential secured for business purpose	160	165	16	295	295	45
Real estate—residential secured for personal purpose	—	—	—	252	252	16
Real estate—home equity secured for personal purpose	—	—	—	105	105	53
Total impaired loans with an allowance recorded	$1,457	$1,462	$ 410	$3,196	$3,196	$ 322

	At June 30, 2016			At December 31, 2015		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Total impaired loans:						
Commercial, financial and agricultural	$12,472	$14,293	$ 390	$12,881	$15,862	$ 208
Real estate—commercial real estate	26,761	27,659	4	30,088	30,996	—
Real estate—residential secured for business purpose	3,772	4,068	16	4,892	5,012	45
Real estate—residential secured for personal purpose	409	434	—	797	806	16
Real estate—home equity secured for personal purpose	620	620	—	275	275	53
Total impaired loans	$44,034	$47,074	$ 410	$48,933	$52,951	$ 322

Impaired loans include nonaccrual loans, accruing troubled debt restructured loans and other accruing impaired loans for which it is probable that not all principal and interest payments due will be collectible in accordance with the contractual terms. These loans are individually measured to determine the amount of potential impairment. The loans are reviewed for impairment based on the fair value of the collateral for collateral dependent loans and for certain loans based on discounted cash flows using the loans' initial effective interest rates. Impaired loans include other accruing impaired loans of $26.9 million and $30.0 million at June 30, 2016 and December 31, 2015, respectively. Specific reserves on other accruing impaired loans were $171 thousand and $186 thousand at June 30, 2016 and December 31, 2015, respectively.

Table of Contents

The following presents by class of loans, the average recorded investment in impaired loans and an analysis of interest on impaired loans. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Therefore, interest income on accruing impaired loans is recognized using the accrual method.

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms
Loans held for sale	$—	$ —	$ —	$83	$ —	$ 1
Loans held for investment:						
Commercial, financial and agricultural	13,387	74	78	15,669	116	99
Real estate—commercial real estate	27,691	281	58	26,093	306	82
Real estate—construction	—	—	—	5,621	—	76
Real estate—residential secured for business purpose	3,740	9	60	3,385	39	38
Real estate—residential secured for personal purpose	392	—	5	796	—	11
Real estate—home equity secured for personal purpose	431	—	9	175	—	3
Total	$45,641	$ 364	$ 210	$51,822	$ 461	$ 310

* Includes interest income recognized on a cash basis for nonaccrual loans of $0 thousand and $18 thousand for the three months ended June 30, 2016 and 2015, respectively and interest income recognized on the accrual method for accruing impaired loans of $364 thousand and $443 thousand for the three months ended June 30, 2016 and 2015, respectively.

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms	Average Recorded Investment	Interest Income Recognized*	Additional Interest Income That Would Have Been Recognized Under Original Terms
Loans held for sale	$—	$ —	$ —	$47	$ —	$ 1
Loans held for investment:						
Commercial, financial and agricultural	13,421	142	173	15,990	258	186
Real estate—commercial real estate	28,389	586	128	27,450	626	165
Real estate—construction	—	—	—	5,688	—	153
Real estate—residential secured for business purpose	4,120	36	107	3,291	68	54
Real estate—residential secured for personal purpose	496	2	9	674	—	24
Real estate—home equity secured for personal purpose	329	—	11	179	—	6

Total	$46,755	$ 766	$ 428	$53,319	$ 952	$ 589

* Includes interest income recognized on a cash basis for nonaccrual loans of $7 thousand and $22 thousand for the six months ended June 30, 2016 and 2015, respectively and interest income recognized on the accrual method for accruing impaired loans of $759 thousand and $930 thousand for the six months ended June 30, 2016 and 2015, respectively.

Table of Contents

Troubled Debt Restructured Loans

The following presents, by class of loans, information regarding accruing and nonaccrual loans that were restructured:

(Dollars in thousands)	Three Months Ended June 30, 2016 Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance	Three Months Ended June 30, 2015 Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance
Accruing Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	—	$ —	$ —	$ —	2	$ 947	$ 947	$ —
Real estate—commercial real estate	—	—	—	—	1	405	405	—
Real estate—residential secured for business purpose	1	415	415	—	—	—	—	—
Total	1	$ 415	$ 415	$ —	3	$ 1,352	$ 1,352	$ —
Nonaccrual Troubled Debt Restructured Loans:								
Total	—	$ —	$ —	$ —	—	$ —	$ —	$ —

(Dollars in thousands)	Six Months Ended June 30, 2016 Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance	Six Months Ended June 30, 2015 Number of Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment	Related Allowance
Accruing Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	1	$ 1,545	$ 1,545	$ —	3	$ 1,090	$ 1,090	$ 71
Real estate—commercial real estate	—	—	—	—	1	405	405	—
Real estate—residential secured for business purpose	1	415	415	—	1	353	353	—
Total	2	$ 1,960	$ 1,960	$ —	5	$ 1,848	$ 1,848	$ 71
Nonaccrual Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	—	$ —	$ —	$ —	1	$ 122	$ 122	$ 42
Total	—	$ —	$ —	$ —	1	$ 122	$ 122	$ 42

The Corporation grants concessions primarily related to extensions of interest-only payment periods and an occasional payment modification. These modifications typically are for a short-term basis up to one year. The goal when restructuring a credit is to establish a reasonable period of time to provide cash flow relief to customers experiencing cash flow difficulties. Accruing troubled debt restructured loans are primarily comprised of loans on which interest is being accrued under the restructured terms, and the loans are current or less than ninety days past due.

Table of Contents

The following presents, by class of loans, information regarding the types of concessions granted on accruing and nonaccrual loans that were restructured during the three and six months ended June 30, 2016 and 2015.

	Interest Only Term Extension		Temporary Payment Reduction		Maturity Date Extension		Amortization Period Extension		Total Concessions Granted	
(Dollars in thousands)	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
Three Months Ended June 30, 2016										
Accruing Troubled Debt Restructured Loans:										
Real estate—residential secured for business purpose	1	$ 415	—	$ —	—	$ —	—	$ —	1	$ 415
Total	1	$ 415	—	$ —	—	$ —	—	$ —	1	$ 415
Nonaccrual Troubled Debt Restructured Loans:										
Total	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —
Three Months Ended June 30, 2015										
Accruing Troubled Debt Restructured Loans:										
Commercial, financial and agricultural	—	$ —	—	$ —	1	$ 500	1	$ 447	2	$ 947
Real estate—commercial real estate	—	—	—	—	—	—	1	405	1	405
Total	—	$ —	—	$ —	1	$ 500	2	$ 852	3	$ 1,352
Nonaccrual Troubled Debt Restructured Loans:										
Total	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —
Six Months Ended June 30, 2016										
Accruing Troubled Debt Restructured Loans:										
Commercial, financial and agricultural	—	$ —	—	$ —	—	$ —	1	$ 1,545	1	$ 1,545
Real estate—residential secured for business purpose	1	415	—	—	—	—	—	—	1	415
Total	1	$ 415	—	$ —	—	$ —	1	$ 1,545	2	$ 1,960
Nonaccrual Troubled Debt Restructured Loans:										
Total	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —
Six Months Ended June 30, 2015										
Accruing Troubled Debt Restructured Loans:										
Commercial, financial and agricultural	—	$ —	1	$ 143	1	$ 500	1	$ 447	3	$ 1,090
Real estate—commercial real estate	—	—	—	—	—	—	1	405	1	405
Real estate—residential secured for business purpose	—	—	1	353	—	—	—	—	1	353
Total	—	$ —	2	$ 496	1	$ 500	2	$ 852	5	$ 1,848
Nonaccrual Troubled Debt Restructured Loans:										
Commercial, financial and agricultural	—	$ —	1	$ 122	—	$ —	—	$ —	1	$ 122
Total	—	$ —	1	$ 122	—	$ —	—	$ —	1	$ 122

The following presents, by class of loans, information regarding accruing and nonaccrual troubled debt restructured loans, for which there were payment defaults within twelve months of the restructuring date:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015

(Dollars in thousands)	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Accruing Troubled Debt Restructured Loans:								
Total	—	$ —	—	$ —	—	$ —	—	$ —
Nonaccrual Troubled Debt Restructured Loans:								
Commercial, financial and agricultural	—	$ —	—	$ —	1	$ 50	2	$ 200
Total	—	$ —	—	$ —	1	$ 50	2	$ 200

As a result of payment default during the first quarter of 2016, a commercial accruing troubled debt restructured loan totaling $50 thousand was placed on nonaccrual of interest status.

Table of Contents

The following presents, by class of loans, information regarding consumer mortgages collateralized by residential real estate property that are in the process of foreclosure at June 30, 2016 and December 31, 2015:

(Dollars in thousands)	At June 30, 2016	At December 31, 2015
Real estate-residential secured for personal purpose	$ 277	$ 313
Real estate-home equity secured for personal purpose	60	60
Total	$ 337	$ 373

The Corporation held no foreclosed consumer residential real estate property at June 30, 2016 and December 31, 2015.

Note 5. Goodwill and Other Intangible Assets

The Corporation has core deposit and customer-related intangibles and mortgage servicing rights, which are not deemed to have an indefinite life and therefore will continue to be amortized over their useful life using the present value of projected cash flows. The Corporation also has goodwill which is deemed to be an indefinite intangible asset and is not amortized.

Changes in the carrying amount of the Corporation's goodwill by business segment for the six months ended June 30, 2016 were as follows:

(Dollars in thousands)	Banking	Wealth Management	Insurance	Consolidated
Balance at December 31, 2015	$ 78,574	$ 15,434	$ 18,649	$ 112,657
Addition to goodwill from acquisitions	—	—	—	—
Balance at June 30, 2016	$ 78,574	$ 15,434	$ 18,649	$ 112,657

The following table reflects the components of intangible assets at the dates indicated:

	At June 30, 2016			At December 31, 2015		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Fair Value Adjustments	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization and Fair Value Adjustments	Net Carrying Amount
Amortized intangible assets:						
Core deposit intangibles	$ 1,520	$ 401	$ 1,119	$ 1,520	$ 276	$ 1,244
Customer related intangibles	12,381	7,719	4,662	14,227	8,728	5,499
Mortgage servicing rights	13,010	7,114	5,896	12,233	6,356	5,877
Total amortized intangible assets	$ 26,911	$ 15,234	$ 11,677	$ 27,980	$ 15,360	$ 12,620

The estimated aggregate amortization expense for core deposit and customer related intangibles for the remainder of 2016 and the succeeding fiscal years is as follows:

Year	(Dollars in thousands)	Amount
Remainder of 2016		$ 909
2017		1,544
2018		1,170
2019		847
2020		577
Thereafter		734

The Corporation has originated mortgage servicing rights which are included in other intangible assets on the consolidated balance sheets. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income on a basis similar to the interest method and an accelerated amortization method for loan payoffs. Mortgage servicing rights are subject to impairment testing on a quarterly basis. The aggregate fair value of these rights was $6.8 million and $8.0 million at June 30, 2016 and December 31, 2015, respectively. The fair value of mortgage servicing rights was determined using a discount rate of 10.0% at June 30, 2016, and December 31, 2015.

Table of Contents

Changes in the mortgage servicing rights balance are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Beginning of period	$5,839	$5,523	$5,877	$5,509
Servicing rights capitalized	466	499	777	881
Amortization of servicing rights	(409)	(326)	(758)	(694)
Changes in valuation allowance	—	—	—	—
End of period	$5,896	$5,696	$5,896	$5,696
Mortgage loans serviced for others	$889,639	$832,318	$889,639	$832,318

There was no activity in the valuation allowance for the three and six months ended June 30, 2016 and June 30, 2015.

The estimated amortization expense of mortgage servicing rights for the remainder of 2016 and the succeeding fiscal years is as follows:

Year	(Dollars in thousands)	Amount
Remainder of 2016		$ 559
2017		1,024
2018		846
2019		690
2020		560
Thereafter		2,217

Note 6. Income Taxes

At June 30, 2016 and December 31, 2015, the Corporation had no material unrecognized tax benefits, accrued interest or penalties. Penalties are recorded in noninterest expense in the year they are assessed and are treated as a non-deductible expense for tax purposes. Interest is recorded in noninterest expense in the year it is assessed and is treated as a deductible expense for tax purposes. At June 30, 2016, the Corporation's tax years 2012 through 2015 remain subject to federal examination as well as examination by state taxing jurisdictions.

Note 7. Retirement Plans and Other Postretirement Benefits

Substantially all employees who were hired before December 8, 2009 are covered by a noncontributory retirement plan. Employees hired on or after December 8, 2009 are not eligible to participate in the noncontributory retirement plan. The Corporation also provides supplemental executive retirement benefits to certain former executives, a portion of which is in excess of limits imposed on qualified plans by federal tax law; these plans are non-qualified benefit plans. These non-qualified benefit plans are not offered to new participants; all current participants are now retired. Information on these plans are aggregated and reported under "Retirement Plans" within this footnote.

The Corporation also provides certain postretirement healthcare and life insurance benefits for retired employees. Information on these benefits is reported under "Other Postretirement Benefits" within this footnote.

The Corporation sponsors a Supplemental Non-Qualified Pension Plan which was established in 1981 prior to the existence of a 401(k) deferred salary savings plan, employee stock purchase plan and long-term incentive plans and therefore is not offered to new participants; all current participants are now retired.

Table of Contents

Components of net periodic benefit cost (income) were as follows:

	Three Months Ended June 30,			
	2016	2015	2016	2015
(Dollars in thousands)	Retirement Plans		Other Post Retirement Benefits	
Service cost	$170	$193	$ 11	$ 14
Interest cost	519	488	33	27
Expected return on plan assets	(753)	(756)	—	—
Amortization of net actuarial loss	322	326	7	14
Accretion of prior service cost	(70)	(70)	—	—
Net periodic benefit cost	$188	$181	$ 51	$ 55

	Six Months Ended June 30,			
	2016	2015	2016	2015
(Dollars in thousands)	Retirement Plans		Other Post Retirement Benefits	
Service cost	$341	$386	$ 23	$ 29
Interest cost	1,037	976	66	55
Expected return on plan assets	(1,507)	(1,512)	—	—
Amortization of net actuarial loss	645	654	13	27
Accretion of prior service cost	(141)	(140)	—	—
Net periodic benefit cost (income)	$375	$364	$ 102	$ 111

The Corporation expects to make a contribution of $2.0 million to its qualified retirement plan during the third quarter of 2016. The Corporation previously disclosed in its financial statements for the year ended December 31, 2015, that it expected to make contributions of $160 thousand to its non-qualified retirement plans and $117 thousand to its other postretirement benefit plans in 2016. During the six months ended June 30, 2016, the Corporation contributed $80 thousand to its non-qualified retirement plans and $41 thousand to its other postretirement plans. During the six months ended June 30, 2016, $1.2 million was paid to participants from the retirement plans and $41 thousand was paid to participants from the other postretirement plans.

Note 8. Borrowings

Short-term borrowings consist of overnight borrowings and term borrowings with an original maturity of less than one year. Short-term borrowings are obtained from the Federal Home Loan Bank (FHLB) and correspondent banks. At June 30, 2016, short-term borrowings consisted of borrowings with the FHLB of $156.0 million, customer repurchase agreements of $24.3 million and a short-term bridge loan with a correspondent bank of $80.0 million. The bridge loan was paid off on July 1, 2016 in conjunction with the closing of the merger. At December 31, 2015, short-term borrowings consisted of customer repurchase agreements of $24.2 million.

At June 30, 2016 and December 31, 2015, the Corporation had $49.5 million and $49.4 million, respectively, of long-term subordinated notes.

On April 25, 2016, Kroll Bond Rating Agency ("KBRA") affirmed its credit rating for the Corporation and the Bank with a stable outlook. Specifically, KBRA affirmed the Corporation's senior unsecured debt rating of BBB+, subordinated debt rating of BBB and short-term rating of K2. With regard to the Bank, KBRA affirmed the Bank's deposit rating of A-, short-term debt rating of K2 and short-term deposit rating of K2 while also assigning the Bank a senior unsecured debt rating of A-.

Table of Contents

Note 9. Earnings per Share

The Corporation uses the two-class method to calculate earnings per share as the unvested restricted stock issued under the Corporation's equity incentive plans are participating shares with nonforfeitable rights to dividends. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the number of weighted average shares outstanding during the period.

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars and shares in thousands, except per share data)	2016	2015	2016	2015
Numerator:				
Net income	$5,240	$6,466	$12,529	$12,582
Net income allocated to unvested restricted stock	(40)	(49)	(98)	(93)
Net income allocated to common shares	$5,200	$6,417	$12,431	$12,489
Denominator:				
Denominator for basic earnings per share—weighted-average shares outstanding	19,434	19,501	19,418	19,638
Effect of dilutive securities—employee stock options	35	29	33	26
Denominator for diluted earnings per share—adjusted weighted-average shares outstanding	19,469	19,530	19,451	19,664
Basic earnings per share	$0.27	$0.33	$0.64	$0.64
Diluted earnings per share	$0.27	$0.33	$0.64	$0.64
Average anti-dilutive options and awards excluded from computation of diluted earnings per share	619	567	603	555

Note 10. Accumulated Other Comprehensive (Loss) Income

The following table shows the components of accumulated other comprehensive (loss) income, net of taxes, for the periods presented:

(Dollars in thousands)	Net Unrealized Gains (Losses) on Available-for-Sale Investment Securities	Net Change Related to Derivatives Used for Cash Flow Hedges	Net Change Related to Defined Benefit Pension Plans	Accumulated Other Comprehensive (Loss) Income
Balance, December 31, 2015	$ (592)	$ (285)	$ (15,831)	$ (16,708)
Net Change	2,499	(497)	336	2,338
Balance, June 30, 2016	$ 1,907	$ (782)	$ (15,495)	$ (14,370)
Balance, December 31, 2014	$ 1,711	$ (157)	$ (16,016)	$ (14,462)
Net Change	(1,085)	26	351	(708)
Balance, June 30, 2015	$ 626	$ (131)	$ (15,665)	$ (15,170)

Table of Contents

The following table illustrates the amounts reclassified out of each component of accumulated comprehensive loss for the three and six months ended June 30, 2016 and 2015:

Details about Accumulated Other Comprehensive (Loss) Income Components	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income				Affected Line Item in the Statement of Income
	Three Months Ended June 30,		Six Months Ended June 30,		
(Dollars in thousands)	2016	2015	2016	2015	
Net unrealized holding gains on available-for-sale investment securities:					
	$413	$181	$457	$272	Net gain on sales of investment securities
	413	181	457	272	Total before tax
	(145)	(63)	(160)	(95)	Tax expense
	$268	$118	$297	$177	Net of tax
Defined benefit pension plans:					
Amortization of net loss included in net periodic pension costs*	$(329)	$(340)	$(658)	$(681)	
Accretion of prior service cost included in net periodic pension costs*	70	70	141	140	
	(259)	(270)	(517)	(541)	Total before tax
	91	94	181	190	Tax benefit
	$(168)	$(176)	$(336)	$(351)	Net of tax

* These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension cost. (See Note 7—Retirement Plans and Other Postretirement Benefits for additional details.)

Note 11. Derivative Instruments and Hedging Activities

The Corporation may use interest-rate swap agreements to modify interest rate characteristics from variable to fixed or fixed to variable in order to reduce the impact of interest rate changes on future net interest income. Recorded amounts related to interest-rate swaps are included in other assets or liabilities. The Corporation's credit exposure on interest rate swaps includes fair value and any collateral that is held by a third party. Changes in the fair value of derivative instruments designated as hedges of future cash flows are recognized in accumulated other comprehensive income until the underlying forecasted transactions occur, at which time the deferred gains and losses are recognized in earnings. For a qualifying fair value hedge, the gain or loss on the hedging instrument is recognized in earnings, and the change in fair value of the hedge item, to the extent attributable to the hedged risk, adjusts the carrying amount of the hedge item and is recognized in earnings.

Derivative loan commitments represent agreements for delayed delivery of financial instruments in which the buyer agrees to purchase and the seller agrees to deliver, at a specified future date, a specified instrument at a specified price or yield. The Corporation's derivative loan commitments are commitments to sell loans secured by 1-to 4-family residential properties whose predominant risk characteristic is interest rate risk. The fair values of these derivative loan commitments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties.

On October 24, 2014, the Corporation entered into an amortizing interest rate swap classified as a cash flow hedge with a notional amount of $20.0 million to hedge a portion of the debt financing of a pool of 10-year maturity fixed rate loans with balances totaling $29.1 million, at time of the hedge, that were originated in 2013. A brokered money market demand account with a balance exceeding the amortizing interest rate swap balance is being used for the cash flow hedge. Under the terms of the swap agreement, the Corporation pays a fixed rate of 2.10% and receives a floating rate based on the one-month LIBOR with a maturity date of November 1, 2022. The Corporation performed an assessment of the hedge for effectiveness at the inception of the hedge and on a recurring basis to determine that the derivative has been and is expected to continue to be highly effective in offsetting changes in cash flows of the hedged item. The Corporation expects that there will be no ineffectiveness over the life of the interest rate swap, and therefore anticipates no portion of the net loss in accumulated other comprehensive loss will be reclassified into interest expense. To the extent there is ineffectiveness, the Corporation would record the ineffectiveness in interest expense. At June 30, 2016, approximately $269 thousand in net deferred losses, net of tax, recorded in accumulated other comprehensive loss are expected to be reclassified into earnings during the next twelve months. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to June 30, 2016.

Table of Contents

The Corporation pledges cash or securities to cover a portion of the negative fair value of the interest rate swap, as measured by the counterparty. At June 30, 2016, the notional amount of the cash flow hedge was $18.9 million, with a negative fair value of $1.2 million. The Corporation has pledged $1.3 million to the counterparty as collateral for the negative fair value.

The following table presents the notional amounts and fair values of derivatives not designated as hedging instruments recorded on the consolidated balance sheets at June 30, 2016 and December 31, 2015:

		Derivative Assets		Derivative Liabilities	
(Dollars in thousands)	Notional Amount	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
At June 30, 2016					
Interest rate locks with customers	$57,601	Other Assets	$2,432		$—
Forward loan sale commitments	62,783		—	Other Liabilities	510
Total	$120,384		$2,432		$510
At December 31, 2015					
Interest rate locks with customers	$34,450	Other Assets	$1,089		$—
Forward loan sale commitments	39,545		—	Other Liabilities	102
Total	$73,995		$1,089		$102

The following table presents the notional amounts and fair values of derivatives designated as hedging instruments recorded on the consolidated balance sheets at June 30, 2016 and December 31, 2015:

		Derivative Assets		Derivative Liabilities	
(Dollars in thousands)	Notional Amount	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
At June 30, 2016					
Interest rate swap - cash flow hedge	$18,921		$ —	Other Liabilities	$1,203
Total	$18,921		$ —		$1,203
At December 31, 2015					
Interest rate swap - cash flow hedge	$19,269		$ —	Other Liabilities	$438
Total	$19,269		$ —		$438

For the three and six months ended June 30, 2016 and 2015, the amounts included in the consolidated statements of income for derivatives not designated as hedging instruments are shown in the table below:

	Statement of Income Classification	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)		2016	2015	2016	2015
Interest rate locks with customers	Net gain (loss) on mortgage banking activities	$711	$(312)	$1,343	$137
Forward loan sale commitments	Net gain (loss) on mortgage banking activities	(267)	305	(408)	249
Total		$444	$(7)	$935	$386

For the three and six months ended June 30, 2016 and 2015, the amounts included in the consolidated statements of income for derivatives designated as hedging instruments are shown in the table below:

	Statement of Income Classification	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)		2016	2015	2016	2015
	Interest expense	$80	$95	$161	191

Interest rate swap—cash flow hedge—net interest payments				
Net loss	$(80)	$(95)	$(161)	$(191)

31

Table of Contents

At June 30, 2016 and December 31, 2015, the amounts included in accumulated other comprehensive (loss) income for derivatives designated as hedging instruments are shown in the table below:

(Dollars in thousands)	Accumulated Other Comprehensive (Loss) Income	At June 30, 2016	At December 31, 2015
Interest rate swap—cash flow hedge	Fair value, net of taxes	$(782)	$ (285)
Total		$(782)	$ (285)

Note 12. Fair Value Disclosures

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The Corporation determines the fair value of financial instruments based on the fair value hierarchy. The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect the Corporation's assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances, including assumptions about risk. Three levels of inputs are used to measure fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement. Transfers between levels are recognized at the end of the reporting period.

Level 1: Valuations are based on quoted prices in active markets for identical assets or liabilities that the Corporation can access at the measurement date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2: Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Assets and liabilities utilizing Level 3 inputs include: financial instruments whose value is determined using pricing models, discounted cash-flow methodologies, or similar techniques, as well as instruments for which the fair value calculation requires significant management judgment or estimation.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

Where quoted prices are available in an active market for identical instruments, investment securities are classified within Level 1 of the valuation hierarchy. Level 1 investment securities include U.S. Treasury securities, most equity securities and money market mutual funds. Mutual funds are registered investment companies which are valued at net asset value of shares on a market exchange at the end of each trading day. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of instruments, which would generally be classified within Level 2 of the valuation hierarchy, include securities issued by U.S. Government sponsored enterprises, mortgage-backed securities, collateralized mortgage obligations, corporate and municipal bonds and certain equity securities. In cases where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy.

Fair values for securities are determined using independent pricing services and market-participating brokers. The Corporation's independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, the pricing service's evaluated pricing applications apply information as applicable through processes, such as benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. If at any time, the pricing service determines that it does not have sufficient verifiable information to value a particular security, the Corporation will utilize valuations from another pricing service. Management has a sufficient understanding of the third party service's valuation models, assumptions and inputs used in determining the fair value of securities to enable management to maintain an appropriate system of internal control.

On a quarterly basis, the Corporation reviews changes, as submitted by the pricing service, in the market value of its security portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. Additionally, on a quarterly basis, the Corporation has its security portfolio priced by a second pricing service to determine consistency with another market evaluator, except for municipal bonds which are priced by

Table of Contents

another service provider on a sample basis. If, upon the Corporation's review or in comparing with another service, a material difference between pricing evaluations were to exist, the Corporation may submit an inquiry to the current pricing service regarding the data used to determine the valuation of a particular security. If the Corporation determines there is market information that would support a different valuation than from the current pricing service's evaluation, the Corporation can submit a challenge for a change to that security's valuation. There were no material differences in valuations noted at June 30, 2016.

Derivative Financial Instruments

The fair values of derivative financial instruments are based upon the estimated amount the Corporation would receive or pay to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties. Derivative financial instruments are classified within Level 2 of the valuation hierarchy.

Contingent Consideration Liability

The Corporation estimates the fair value of the contingent consideration liability by using a discounted cash flow model of future contingent payments based on projected revenue related to the acquired business. The estimated fair value of the contingent consideration liability is reviewed on a quarterly basis and any valuation adjustments resulting from a change of estimated future contingent payments based on projected revenue of the acquired business affecting the contingent consideration liability will be recorded through noninterest expense. Changes in the original assumptions utilized at the time the acquisition closes and identified during the measurement period are recorded in accordance with ASC Topic 805 as an adjustment to goodwill. Due to the significant unobservable input related to the projected revenue, the contingent consideration liability is classified within Level 3 of the valuation hierarchy. An increase in the projected revenue may result in a higher fair value of the contingent consideration liability. Alternatively, a decrease in the projected revenue may result in a lower estimated fair value of the contingent consideration liability.

For the Sterner Insurance Associates acquisition, the potential remaining two cash payments that could result from the contingent consideration arrangement range from $0 to a maximum of $3.9 million based on the results for the twelve-month periods ended June 30, 2016 and 2017, respectively. Due to updates to the original assumptions utilized for determining the contingent consideration liability for the Sterner acquisition completed on July 1, 2014, the Corporation recorded a purchase accounting adjustment, in accordance with ASC Topic 805, in the first quarter of 2015 which resulted in an increase to the contingent consideration liability and an increase to goodwill of $1.5 million.

For the Girard Partners acquisition, the potential remaining three cash payments that could result from the contingent consideration arrangement range from $0 to a maximum of $12.9 million cumulative based on the results for the three-year periods ended December 31, 2016, 2017, and 2018, respectively. The Corporation recorded a reduction to the contingent liability during the fourth quarter of 2015 which resulted in a reduction of noninterest expense of $550 thousand. The adjustment reflected that projected revenue levels for earn-out payments in the second through fifth years post-acquisition are anticipated to be lower than originally projected.

Table of Contents

The following table presents the assets and liabilities measured at fair value on a recurring basis at June 30, 2016 and December 31, 2015, classified using the fair value hierarchy:

	At June 30, 2016			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/ Liabilities at Fair Value
Assets:				
Available-for-sale securities:				
U.S. government corporations and agencies	$—	$47,446	$—	$ 47,446
State and political subdivisions	—	98,867	—	98,867
Residential mortgage-backed securities	—	3,635	—	3,635
Collateralized mortgage obligations	—	2,928	—	2,928
Corporate bonds	—	93,445	—	93,445
Money market mutual funds	7,009	—	—	7,009
Equity securities	765	—	—	765
Total available-for-sale securities	7,774	246,321	—	254,095
Interest rate locks with customers	—	2,432	—	2,432
Total assets	$7,774	$248,753	$—	$ 256,527
Liabilities:				
Contingent consideration liability	$—	$—	$5,213	$ 5,213
Interest rate swap	—	1,203	—	1,203
Forward loan sale commitments	—	510	—	510
Total liabilities	$—	$1,713	$5,213	$ 6,926

	At December 31, 2015			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/ Liabilities at Fair Value
Assets:				
Available-for-sale securities:				
U.S. treasuries	$4,887	$—	$—	$ 4,887
U.S. government corporations and agencies	—	102,156	—	102,156
State and political subdivisions	—	102,032	—	102,032
Residential mortgage-backed securities	—	13,354	—	13,354
Collateralized mortgage obligations	—	3,133	—	3,133
Corporate bonds	—	86,675	—	86,675
Money market mutual funds	16,726	—	—	16,726
Equity securities	807	—	—	807
Total available-for-sale securities	22,420	307,350	—	329,770
Interest rate locks with customers	—	1,089	—	1,089
Forward loan sale commitments	—	—	—	—
Total assets	$22,420	$308,439	$—	$ 330,859
Liabilities:				
Contingent consideration liability	$—	$—	$5,577	$ 5,577
Interest rate swap	—	438	—	438
Forward loan sale commitments	—	102	—	102
Total liabilities	$—	$540	$5,577	$ 6,117

At June 30, 2016 and December 31, 2015, the Corporation had no assets measured at fair value on a recurring basis utilizing Level 3 inputs.

Table of Contents

The following table presents the change in the balance of the contingent consideration liability related to acquisitions for which the Corporation utilized Level 3 inputs to determine fair value on a recurring basis for the six months ended June 30, 2016 and 2015:

(Dollars in thousands)	Six Months Ended June 30, 2016 Balance at December 31, 2015	Contingent Consideration from New Acquisition	Payment of Contingent Consideration	Adjustment of Contingent Consideration	Balance at June 30, 2016
Sterner Insurance Associates	$1,144	$ —	$ —	$ 490	$1,634
Girard Partners	4,241	—	900	238	3,579
John T. Fretz Insurance Agency	192	—	260	68	—
Total contingent consideration liability	$5,577	$ —	$ 1,160	$ 796	$5,213

(Dollars in thousands)	Six Months Ended June 30, 2015 Balance at December 31, 2014	Contingent Consideration from New Acquisition*	Payment of Contingent Consideration	Adjustment of Contingent Consideration	Balance at June 30, 2015
Sterner Insurance Associates	$680	$ 1,525	$ —	$ 402	$2,607
Girard Partners	5,503	$ —	$ 620	$ (112)	4,771
John T. Fretz Insurance Agency	358	—	260	80	178
Total contingent consideration liability	$6,541	$ 1,525	$ 880	$ 370	$7,556

*Includes adjustments during the measurement period in accordance with ASC Topic 805.

The Corporation recorded an increase to the contingent liability related to Sterner Insurance Associates during the second quarter of 2016 which resulted in an increase in noninterest expense of $183 thousand. The adjustment reflected that projected revenue levels for earn-out payments in the second through third years post-acquisition are anticipated to be higher than originally projected.

The Corporation may be required to periodically measure certain assets and liabilities at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower of cost or market accounting or impairment charges of individual assets. The following table represents assets measured at fair value on a non-recurring basis at June 30, 2016 and December 31, 2015:

(Dollars in thousands)	At June 30, 2016 Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
Impaired loans held for investment	$—	$ —	$43,624	$ 43,624
Total	$—	$ —	$43,624	$ 43,624

(Dollars in thousands)	At December 31, 2015 Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
Impaired loans held for investment	$—	$ —	$48,611	$ 48,611
Total	$—	$ —	$48,611	$ 48,611

35

Table of Contents

The following table presents assets and liabilities and off-balance sheet items not measured at fair value on a recurring or non-recurring basis in the Corporation's consolidated balance sheets but for which the fair value is required to be disclosed at June 30, 2016 and December 31, 2015. The disclosed fair values are classified using the fair value hierarchy.

	At June 30, 2016				
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:					
Cash and short-term interest-earning assets	$93,190	$—	$—	$93,190	$93,190
Held-to-maturity securities	—	32,946	—	32,946	32,885
Loans held for sale	—	4,766	—	4,766	4,657
Net loans and leases held for investment	—	—	2,255,667	2,255,667	2,284,260
Mortgage servicing rights	—	—	6,785	6,785	5,896
Other real estate owned	—	3,131	—	3,131	3,131
Total assets	$93,190	$40,843	$2,262,452	$2,396,485	$2,424,019
Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	$2,016,892	$—	$—	$2,016,892	$2,016,892
Time deposits	—	361,256	—	361,256	360,192
Total deposits	2,016,892	361,256	—	2,378,148	2,377,084
Short-term borrowings	—	259,971	—	259,971	260,216
Subordinated notes	—	50,250	—	50,250	49,450
Total liabilities	$2,016,892	$671,477	$—	$2,688,369	$2,686,750
Off-Balance-Sheet:					
Commitments to extend credit	$—	$(1,874)	$—	$(1,874)	$—

	At December 31, 2015				
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets:					
Cash and short-term interest-earning assets	$60,799	$—	$—	$60,799	$60,799
Held-to-maturity securities	—	41,061	—	41,061	40,990
Loans held for sale	—	4,708	—	4,708	4,680
Net loans and leases held for investment	—	—	2,099,082	2,099,082	2,112,774
Mortgage servicing rights	—	—	8,047	8,047	5,877
Other real estate owned	—	1,276	—	1,276	1,276
Total assets	$60,799	$47,045	$2,107,129	$2,214,973	$2,226,396
Liabilities:					
Deposits:					
Demand and savings deposits, non-maturity	$1,939,954	$—	$—	$1,939,954	$1,939,954
Time deposits	—	455,527	—	455,527	454,406
Total deposits	1,939,954	455,527	—	2,395,481	2,394,360
Short-term borrowings	—	22,302	—	22,302	24,211
Subordinated notes	$—	$50,375	$—	$50,375	$49,377
Total liabilities	$1,939,954	$528,204	$—	$2,468,158	$2,467,948
Off-Balance-Sheet:					
Commitments to extend credit	$—	$(1,788)	$—	$(1,788)	$—

The following valuation methods and assumptions were used by the Corporation in estimating the fair value for financial instruments measured at fair value on a non-recurring basis and financial instruments not measured at fair value on a recurring or non-recurring basis in the Corporation’s consolidated balance sheets but for which the fair value is required to be disclosed:

Table of Contents

Cash and short-term interest-earning assets: The carrying amounts reported in the balance sheet for cash and due from banks, interest-earning deposits with other banks, federal funds sold and other short-term investments approximates those assets' fair values. Cash and short-term interest-earning assets are classified within Level 1 in the fair value hierarchy.

Held-to-maturity securities: Fair values for the held-to-maturity investment securities are estimated by using pricing models or quoted prices of securities with similar characteristics and are classified in Level 2 in the fair value hierarchy.

Loans held for sale: The fair value of the Corporation's mortgage loans held for sale are generally determined using a pricing model based on current market information obtained from external sources, including interest rates, bids or indications provided by market participants on specific loans that are actively marketed for sale. These loans are primarily residential mortgage loans and are generally classified in Level 2 due to the observable pricing data. Loans held for sale are carried at the lower of cost or estimated fair value. There were no valuation adjustments for loans held for sale at June 30, 2016 and December 31, 2015.

Loans and leases held for investment: The fair values for loans and leases held for investment are estimated using discounted cash flow analyses, using a discount rate based on current interest rates at which similar loans with similar terms would be made to borrowers and include components for credit risk, operating expense and embedded prepayment options. An overall valuation adjustment is made for specific credit risks in addition to general portfolio risk and is significant to the valuation. As permitted, the fair value of the loans and leases are not based on the exit price concept as discussed in the first paragraph of this note. Loans and leases are classified within Level 3 in the fair value hierarchy.

Impaired loans held for investment: Impaired loans held for investment include those collateral-dependent loans for which the practical expedient was applied, resulting in a fair-value adjustment to the loan. Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans less costs to sell and is classified at a Level 3 in the fair value hierarchy. The fair value of collateral is based on appraisals performed by qualified licensed appraisers hired by the Corporation. At June 30, 2016, impaired loans held for investment had a carrying amount of $44.0 million with a valuation allowance of $410 thousand. At December 31, 2015, impaired loans held for investment had a carrying amount of $48.9 million with a valuation allowance of $322 thousand.

Mortgage servicing rights: The Corporation estimates the fair value of mortgage servicing rights using discounted cash flow models that calculate the present value of estimated future net servicing income. The model uses readily available prepayment speed assumptions for the interest rates of the portfolios serviced. Mortgage servicing rights are classified within Level 3 of the valuation hierarchy. The Corporation reviews the mortgage servicing rights portfolio on a quarterly basis for impairment and the mortgage servicing rights are carried at the lower of amortized cost or estimated fair value. At June 30, 2016 and December 31, 2015, mortgage servicing rights had a carrying amount of $5.9 million, with no valuation allowance.

Goodwill and other identifiable assets: Certain non-financial assets subject to measurement at fair value on a non-recurring basis include goodwill and other identifiable intangible assets. During the six months ended June 30, 2016, there were no triggering events that required valuation of goodwill and other identifiable intangible assets.

Other real estate owned: The fair value of other real estate owned is estimated based upon the appraised value less costs to sell. The real estate is stated at an amount equal to the loan balance prior to foreclosure, plus costs incurred for improvements to the property but no more than the fair value of the property, less estimated costs to sell. New appraisals are generally obtained on an annual basis. Other real estate owned is classified within Level 2 of the valuation hierarchy.

Deposit liabilities: The fair values for demand and savings accounts, with no stated maturities, is the amount payable on demand at the reporting date (carrying value) and are classified within Level 1 in the fair value hierarchy. The fair values for time deposits with fixed maturities are estimated by discounting the final maturity using interest rates currently offered for deposits with similar remaining maturities. Time deposits are classified within Level 2 in the fair value hierarchy.

Short-term borrowings: The fair value of short-term borrowings are estimated using current market rates for similar borrowings and are classified within Level 2 in the fair value hierarchy.
Subordinated notes: The fair value of the subordinated notes are estimated by discounting the principal balance using the treasury yield curve for the term to the call date as the Corporation has the option to call the subordinated notes. The subordinated notes are classified within Level 2 in the fair value hierarchy.
Off-balance-sheet instruments: Fair values for the Corporation’s off-balance-sheet instruments are based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing and are classified within Level 2 in the fair value hierarchy.

Table of Contents

Note 13. Segment Reporting

At June 30, 2016, the Corporation has three reportable business segments: Banking, Wealth Management and Insurance. The Corporation determines the segments based primarily upon product and service offerings, through the types of income generated and the regulatory environment. This is strategically how the Corporation operates and has positioned itself in the marketplace. Accordingly, significant operating decisions are based upon analysis of each of these segments. At June 30, 2016, these segments meet the quantitative thresholds for separate disclosure as a business segment. Non-reportable segments include the parent holding company and intercompany eliminations, and are included in the "Other" segment.

The Corporation's Banking segment consists of commercial and consumer banking. The Wealth Management segment consists of investment advisory services, retirement plan services, trust, municipal pension services and broker/dealer services. The Insurance segment consists of commercial lines, personal lines, benefits and human resources consulting.

Each segment generates revenue from a variety of products and services it provides. Examples of products and services provided for each reportable segment are indicated below.

The Banking segment provides financial services to consumers, businesses and governmental units. These services include a full range of banking services such as deposit taking, loan origination and servicing, mortgage banking, other general banking services and equipment lease financing.

The Wealth Management segment offers trust and investment advisory services, guardian and custodian of employee benefits and other trust and brokerage services, as well as a registered investment advisory managing private investment accounts for both individuals and institutions.

The Insurance segment includes a full-service insurance brokerage agency offering commercial property and casualty insurance, group life and health coverage, employee benefit solutions, personal insurance lines and human resources consulting.

The accounting policies, used in the disclosure of the operating segments, are the same as those described in Note 1, “Summary of Significant Accounting Policies".

The following table provides total assets by reportable operating segment as of the dates indicated.

(Dollars in thousands)	At June 30, 2016	At December 31, 2015	At June 30, 2015
Banking	$2,925,285	$2,797,746	$2,701,275
Wealth Management	31,392	33,950	31,605
Insurance	25,309	24,436	25,389
Other	125,631	23,319	22,309
Consolidated assets	$3,107,617	$2,879,451	$2,780,578

The following tables provide reportable segment-specific information and reconciliations to consolidated financial information for the three and six months ended June 30, 2016 and 2015.

	Three Months Ended June 30, 2016				
(Dollars in thousands)	Banking	Wealth Management	Insurance	Other	Consolidated
Interest income	$25,986	$ 1	$ —	$7	$ 25,994
Interest expense	2,163	—	—	288	2,451
Net interest income	23,823	1	—	(281)	23,543
Provision for loan and lease losses	830	—	—	—	830
Noninterest income	5,610	4,812	3,620	77	14,119
Intangible expenses	66	304	626	—	996
Other noninterest expense	19,733	3,247	2,937	2,633	28,550
Intersegment (revenue) expense*	(479)	211	268	—	—
Income (expense) before income taxes	9,283	1,051	(211)	(2,837)	7,286

Income tax expense (benefit)	2,291	395	(81)	(559)	2,046
Net income (loss)	$6,992	$ 656	$ (130)	$(2,278)	$ 5,240
Capital expenditures	$1,481	$ 9	$ 11	$515	$ 2,016

38

Table of Contents

Three Months Ended June 30, 2015					
(Dollars in thousands)	Banking	Wealth Management	Insurance	Other	Consolidated
Interest income	$25,505	$ —	$ —	$8	$ 25,513
Interest expense	2,133	—	—	—	2,133
Net interest income	23,372	—	—	8	23,380
Provision for loan and lease losses	1,141	—	—	—	1,141
Noninterest income	4,858	4,964	3,538	(9)	13,351
Intangible expenses	73	85	735	—	893
Other noninterest expense	20,499	3,059	2,683	(302)	25,939
Intersegment (revenue) expense*	(495)	195	300	—	—
Income (expense) before income taxes	7,012	1,625	(180)	301	8,758
Income tax expense (benefit)	1,814	623	(72)	(73)	2,292
Net income (loss)	$5,198	$ 1,002	$ (108)	$374	$ 6,466
Capital expenditures	$1,321	$ —	$ 8	$5	$ 1,334

Six Months Ended June 30, 2016					
(Dollars in thousands)	Banking	Wealth Management	Insurance	Other	Consolidated
Interest income	$51,586	$ 3	$ —	$ 14	$ 51,603
Interest expense	4,374	—	—	288	4,662
Net interest income	47,212	3	—	(274)	46,941
Provision for loan and lease losses	1,156	—	—	—	1,156
Noninterest income	10,283	9,384	8,340	68	28,075
Intangible expenses	133	607	1,026	—	1,766
Other noninterest expense	38,475	6,305	6,056		