BRYN MAWR BANK CORP
Form 10-Q
August 03, 2018
Table of Contents

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

Form 10-Q

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

For Quarter ended June 30, 2018

Commission File Number 1-35746

Bryn Mawr Bank Corporation
(Exact name of registrant as specified in its charter)

Pennsylvania	23-2434506
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No.)
801 Lancaster Avenue, Bryn Mawr, Pennsylvania	19010
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
Former name, former address and fiscal year, if changed since last report.

Indicate by checkmark whether the registrant (1) has filed all reports to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act..
Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company Emerging growth company
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Classes	Outstanding at August 1, 2018
Common Stock, par value $1	20,245,481

Table of Contents

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES

FORM 10-Q

QUARTER ENDED JUNE 30, 2018

Index

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements
BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets - Unaudited

(dollars in thousands)	June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$7,318	$ 11,657
Interest bearing deposits with banks	39,924	48,367
Cash and cash equivalents	47,242	60,024
Investment securities available for sale, at fair value (amortized cost of $543,314 and $692,824 as of June 30, 2018 and December 31, 2017, respectively)	531,075	689,202
Investment securities held to maturity, at amortized cost (fair value of $7,547 and $7,851 as of June 30, 2018 and December 31, 2017, respectively)	7,838	7,932
Investment securities, trading	8,175	4,610
Loans held for sale	4,204	3,794
Portfolio loans and leases, originated	2,700,815	2,487,296
Portfolio loans and leases, acquired	688,686	798,562
Total portfolio loans and leases	3,389,501	3,285,858
Less: Allowance for originated loan and lease losses	(19,181)	(17,475)
Less: Allowance for acquired loan and lease losses	(217)	(50)
Total allowance for loans and lease losses	(19,398)	(17,525)
Net portfolio loans and leases	3,370,103	3,268,333
Premises and equipment, net	54,185	54,458
Accrued interest receivable	13,115	14,246
Mortgage servicing rights	5,511	5,861
Bank owned life insurance	57,243	56,667
Federal Home Loan Bank stock	16,678	20,083
Goodwill	183,162	179,889
Intangible assets	24,977	25,966
Other investments	16,774	12,470
Other assets	53,921	46,185
Total assets	$4,394,203	$ 4,449,720
Liabilities		
Deposits:		
Noninterest-bearing	$892,386	$ 924,844
Interest-bearing	2,466,529	2,448,954
Total deposits	3,358,915	3,373,798
Short-term borrowings	227,059	237,865
Long-term FHLB advances	87,808	139,140
Subordinated notes	98,491	98,416
Junior subordinated debentures	21,497	21,416
Accrued interest payable	5,230	3,527
Other liabilities	52,700	47,439
Total liabilities	3,851,700	3,921,601
Shareholders' equity		
Common stock, par value $1; authorized 100,000,000 shares; issued 24,453,417 and 24,360,049 shares as of June 30, 2018 and December 31, 2017, respectively and outstanding of 20,242,893 and 20,161,395 as of June 30, 2018 and December 31, 2017,	24,453	24,360

respectively		
Paid-in capital in excess of par value	372,227	371,486
Less: Common stock in treasury at cost - 4,210,524 and 4,198,654 shares as of June 30, 2018 and December 31, 2017, respectively	(68,943)	(68,179)
Accumulated other comprehensive loss, net of tax	(11,191)	(4,414)
Retained earnings	226,634	205,549
Total Bryn Mawr Bank Corporation shareholders' equity	543,180	528,802
Noncontrolling interest	(677)	(683)
Total shareholders' equity	542,503	528,119
Total liabilities and shareholders' equity	$4,394,203	$4,449,720

The accompanying notes are an integral part of the Unaudited Consolidated Financial Statements.

Table of Contents

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income - Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
(dollars in thousands, except share and per share data)				
Interest income:				
Interest and fees on loans and leases	$41,689	$ 29,143	$82,378	$ 57,625
Interest on cash and cash equivalents	64	35	117	101
Interest on investment securities:				
Taxable	2,922	1,906	5,628	3,529
Non-taxable	78	101	162	211
Dividends	1	52	3	97
Total interest income	44,754	31,237	88,288	61,563
Interest expense:				
Interest on deposits	4,499	1,983	7,971	3,811
Interest on short-term borrowings	985	237	1,615	264
Interest on FHLB advances and other borrowings	490	682	1,052	1,380
Interest on subordinated notes	1,143	370	2,286	740
Interest on junior subordinated debentures	321	—	609	—
Total interest expense	7,438	3,272	13,533	6,195
Net interest income	37,316	27,965	74,755	55,368
Provision for loan and lease losses	3,137	(83)	4,167	208
Net interest income after provision for loan and lease losses	34,179	28,048	70,588	55,160
Noninterest income:				
Fees for wealth management services	10,658	9,807	20,966	19,110
Insurance commissions	1,902	943	3,595	1,706
Capital markets revenue	2,105	953	2,771	953
Service charges on deposits	752	630	1,465	1,277
Loan servicing and other fees	475	519	1,161	1,022
Net gain on sale of loans	528	520	1,046	1,149
Net gain on sale of investment securities available for sale	—	—	7	1
Net gain (loss) on sale of other real estate owned ("OREO")	111	(12)	287	(12)
Dividends on FHLB and FRB stock	510	218	941	432
Other operating income	3,034	1,207	7,372	2,374
Total noninterest income	20,075	14,785	39,611	28,012
Noninterest expenses:				
Salaries and wages	16,240	13,580	32,222	26,030
Employee benefits	2,877	2,404	6,585	4,893
Occupancy and bank premises	2,697	2,247	5,747	4,773
Furniture, fixtures, and equipment	2,069	1,869	3,967	3,843
Advertising	369	405	830	791
Amortization of intangible assets	889	687	1,768	1,380
Due diligence, merger-related and merger integration expenses	3,053	1,236	7,372	1,747
Professional fees	932	1,049	1,680	1,760
Pennsylvania bank shares tax	473	297	946	961
Information technology	1,252	821	2,447	1,695
Other operating expenses	4,985	3,900	8,302	7,282
Total noninterest expenses	35,836	28,495	71,866	55,155

Income before income taxes	18,418	14,338	38,333	28,017
Income tax expense	3,723	4,905	8,353	9,540
Net income	$14,695	$ 9,433	$29,980	$ 18,477
Net income attributable to noncontrolling interest	7	—	6	—
Net income attributable to Bryn Mawr Bank Corporation	$14,688	$ 9,433	$29,974	$ 18,477
Basic earnings per common share	$0.73	$ 0.56	$1.48	$ 1.09
Diluted earnings per common share	$0.72	$ 0.55	$1.47	$ 1.07
Dividends paid or accrued per share	$0.22	$ 0.21	$0.44	$ 0.42
Weighted-average basic shares outstanding	20,238,851	16,984,563	20,221,010	16,969,431
Dilutive shares	174,726	248,204	206,782	238,381
Adjusted weighted-average diluted shares	20,413,578	17,232,767	20,427,792	17,207,812

The accompanying notes are an integral part of the Unaudited Consolidated Financial Statements.

Table of Contents

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income - Unaudited

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income attributable to Bryn Mawr Bank Corporation	$14,688	$9,433	$29,974	$18,477
Other comprehensive (loss) income:				
Net change in unrealized (losses) gains on investment securities available for sale:				
Net unrealized (losses) gains arising during the period, net of tax (benefit) expense of $(402), $221, $(1,721), and $430, respectively	(1,512)	411	(6,473)	799
Reclassification adjustment for net gain on sale realized in net income, net of tax expense of $0, $0, $1 and $0, respectively	—	—	(6)	(1)
Reclassification adjustment for net gain realized on transfer of investment securities available for sale to trading, net of tax expense of $0, $0, $88, and $0, respectively	—	—	(329)	—
Unrealized investment (losses) gains, net of tax (benefit) expense of $(402), $221, $(1,810), and $430, respectively	(1,512)	411	(6,808)	798
Net change in unfunded pension liability:				
Change in unfunded pension liability related to unrealized loss, prior service cost and transition obligation, net of tax (benefit) expense of $(4), $9, $9, and $25, respectively	(15)	15	31	47
Total other comprehensive (loss) income	(1,527)	426	(6,777)	845
Total comprehensive income	$13,161	$9,859	$23,197	$19,322

The accompanying notes are an integral part of the Unaudited Consolidated Financial Statements.

Table of Contents

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows - Unaudited

(dollars in thousands)	Six Months Ended June 30, 2018	2017
Operating activities:		
Net income attributable to Bryn Mawr Bank Corporation	$29,974	$18,477
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	4,167	208
Depreciation of fixed assets	3,033	2,792
Net amortization of investment premiums and discounts	1,509	1,352
Net gain on sale of investment securities available for sale	(7)	(1)
Net gain on sale of loans	(1,046)	(1,149)
Stock based compensation	1,235	915
Amortization and net impairment of mortgage servicing rights	366	387
Net accretion of fair value adjustments	(5,316)	(1,264)
Amortization of intangible assets	1,768	1,380
Impairment of OREO and other repossessed assets	—	200
Net (gain) loss on sale of OREO	(287)	12
Net increase in cash surrender value of bank owned life insurance ("BOLI")	(576)	(401)
Other, net	(7,131)	(1,809)
Loans originated for resale	(44,108)	(57,248)
Proceeds from loans sold	44,663	58,940
Provision for deferred income taxes	640	614
Change in income taxes payable/receivable, net	6,277	(3,580)
Change in accrued interest receivable	1,131	(184)
Change in accrued interest payable	1,703	96
Net cash provided by operating activities	37,995	19,737
Investing activities:		
Purchases of investment securities available for sale	(94,824)	(115,841)
Purchases of investment securities held to maturity	—	(2,335)
Proceeds from maturity and paydowns of investment securities available for sale	239,318	234,043
Proceeds from maturity and paydowns of investment securities held to maturity	77	42
Proceeds from sale of investment securities available for sale	7	130
Net change in FHLB stock	3,405	2,137
Proceeds from calls of investment securities	310	4,864
Net change in other investments	(4,304)	(55)
Purchase of domain name	—	(152)
Net portfolio loan and lease originations	(104,700)	(131,702)
Purchases of premises and equipment	(2,843)	(3,731)
Acquisitions, net of cash acquired	(380)	(4,792)
Capitalize costs to OREO	(15)	—
Proceeds from sale of OREO	420	68
Net cash provided by (used in) investing activities	36,471	(17,324)
Financing activities:		
Change in deposits	(14,164)	102,125

Change in short-term borrowings	(10,806)	(73,856)
Dividends paid	(8,994)	(7,127)
Change in long-term FHLB advances and other borrowings	(51,372)	(25,000)
Payment of contingent consideration for business combinations	(631)	—
Cash payments to taxing authorities on employees' behalf from shares withheld from stock-based compensation	(732)	(98)
Net proceeds from sale of (purchase of) treasury stock for deferred compensation plans	99	(69)
Repurchase of warrants from U.S. Treasury	(1,755)	—
Proceeds from exercise of stock options	1,107	1,005
Net cash used in financing activities	(87,248)	(3,020)
Change in cash and cash equivalents	(12,782)	(607)
Cash and cash equivalents at beginning of period	60,024	50,765
Cash and cash equivalents at end of period	$47,242	$50,158
Supplemental cash flow information:		
Cash paid during the year for:		
Income taxes	$1,606	$12,481
Interest	$11,830	$6,099
Non-cash information:		
Change in other comprehensive loss	$(6,777)	$845
Change in deferred tax due to change in comprehensive income	$(1,801)	$455
Transfer of loans to OREO and repossessed assets	$345	$309
Acquisition of noncash assets and liabilities:		
Assets acquired	$1,466	$7,284
Liabilities assumed	$687	$2,492

The accompanying notes are an integral part of the Unaudited Consolidated Financial Statements.

Page 6

Table of Contents

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes In Shareholders' Equity - Unaudited

(dollars in thousands, except share and per share data)

	For the Six Months Ended June 30, 2018							
	Shares of Common Stock Issued	Common Stock	Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Noncontrolling Interest	Total Shareholders' Equity
Balance December 31, 2017	24,360,049	$24,360	$371,486	$(68,179)	$(4,414)	$205,549	$(683)	$528,119
Net income attributable to Bryn Mawr Bank Corporation	—	—	—	—	—	29,974	—	29,974
Net income attributable to noncontrolling interest	—	—	—	—	—	—	6	6
Dividends paid or accrued, $0.44 per share	—	—	—	—	—	(8,987)	—	(8,987)
Other comprehensive loss, net of tax benefit of $1,801	—	—	—	—	(6,777)	—	—	(6,777)
Stock based compensation	—	—	1,235	—	—	—	—	1,235
Retirement of treasury stock	(2,253)	(2)	(20)	22	—	—	—	—
Net purchase of treasury stock from stock awards for statutory tax withholdings	—	—	—	(732)	—	—	—	(732)
Net treasury stock activity for deferred compensation trusts	—	—	153	(54)	—	—	—	99
Repurchase of warrants from U.S. Treasury	—	—	(1,853)	—	—	98	—	(1,755)
Common stock issued:								
Common stock issued through share-based awards and options exercises	93,059	92	1,116	—	—	—	—	1,208
Shares issued in acquisitions[1]	2,562	3	110	—	—	—	—	113

Balance June 30, 2018	24,453,417	$24,453	$372,227	$(68,943)	$(11,191)	$226,634	$(677)	$542,503

(1) Restricted shares relating to the RBPI Merger (defined in Note 3 – Business Combinations below) recorded during the three months ended June 30, 2018.

The accompanying notes are an integral part of the Unaudited Consolidated Financial Statements.

Table of Contents

BRYN MAWR BANK CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Presentation

The Unaudited Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). In the opinion of Bryn Mawr Bank Corporation's (the "Corporation") management, all adjustments necessary for a fair presentation of the consolidated financial position and the results of operations for the interim periods presented have been included. These Unaudited Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto in the Corporation's Annual Report on Form 10-K for the twelve months ended December 31, 2017 (the "2017 Annual Report").

The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year.

Principles of Consolidation

The Unaudited Consolidated Financial Statements include the accounts of the Corporation and its wholly owned subsidiaries; the Corporation's primary subsidiary is The Bryn Mawr Trust Company (the "Bank"). In connection with the RBPI Merger (defined in Note 3 – Business Combinations below), the Corporation acquired two Delaware trusts, Royal Bancshares Capital Trust I and Royal Bancshares Capital Trust II. These two entities are not consolidated per requirements under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, "Consolidation" ("ASC Topic 810"). All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current-year presentation.

Note 2 - Recent Accounting Pronouncements

The following Financial Accounting Standards Board ("FASB") Accounting Standards Updates ("ASUs") are divided into pronouncements which have been adopted by the Corporation since January 1, 2018, and those which are not yet effective and have been evaluated or are currently being evaluated by management as of June 30, 2018.

Adopted Pronouncements:

FASB ASU 2014-9 (Topic 606), "Revenue from Contracts with Customers"

The Corporation adopted ASU 2014-9 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. The majority of the Corporation's revenues come from interest income and other sources, including loans, leases, investment securities and derivatives, that are outside the scope of ASC 606. The Corporation's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Corporation satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges on deposits, interchange income, wealth management fees, investment brokerage fees, and the net gain on sale of OREO. Refer to Note 17 Revenue from Contracts with Customers for further discussion on the Corporation's accounting policies for revenue sources within the scope of ASC 606. The adoption of this ASU did not have an impact to our Consolidated Financial Statements.

FASB ASU 2017-1 (Topic 805), “Business Combinations”

The Corporation adopted ASU 2017-1, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements and related disclosures.

FASB ASU 2016-15 (Topic 320), “Classification of Certain Cash Receipts and Cash Payments”

The Corporation adopted ASU 2016-15, which provides guidance on eight specific cash flow issues and their disclosure in the consolidated statements of cash flows. The issues addressed include debt prepayment, settlement of zero-coupon debt,

Table of Contents

contingent consideration in business combinations, proceeds from settlement of insurance claims, proceeds from settlement of BOLI, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements and related disclosures.

FASB ASU 2016-1 (Subtopic 825-10), “Financial Instruments – Overall, Recognition and Measurement of Financial Assets and Financial Liabilities”

The Corporation adopted ASU 2016-1 which requires that equity investments be measured at fair value with changes in fair value recognized in net income. The Corporation’s equity investments with a readily determinable fair value are currently included within trading securities and are measured at fair value with changes in fair value recognized in net income. In connection with the adoption of this ASU, the Corporation elected the practicability exception to fair value measurement for investments in equity securities without a readily determinable fair value (other than our Federal Home Loan Bank (“FHLB”), Federal Reserve Bank ("FRB"), and Atlantic Central Bankers Bank stock, which are outside of the scope of this ASU). Under the practicability exception, the investments are measured at cost, less impairment, plus or minus observable price changes (in orderly transactions) of an identical or similar investment of the same issuer. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements.

FASB ASU 2017-7 – Compensation – Retirement Benefits (Topic 715): “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”

On January 1, 2018, the Corporation adopted ASU 2017-7 and all subsequent amendments to the ASU, which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset).

Upon adoption, the components of net periodic benefit cost other than the service cost component were reclassified retrospectively from “Employee benefits” to “Other operating expenses” in the Consolidated Statements of Income. Since both “Employee benefits” and “Other operating expenses” line items of these income statement line items are within “Noninterest expenses”, there was no impact to total “Noninterest expenses” or “Net income.” The components of net periodic benefit cost are currently disclosed in Note 17 – “Pension and Postretirement Benefit Plans” in the Notes to Consolidated Financial Statements found in our 2017 Annual Report. Additionally, the Corporation does not currently capitalize any components of its net periodic benefit costs. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements and related disclosures.

Pronouncements Not Yet Effective:

FASB ASU 2018-07: Compensation - Stock Compensation (Topic 718), “Improvements to Nonemployee Share-Based Payment Accounting”

Issued in June 2018, the FASB issued ASU 2018-07: Compensation - Stock Compensation (Topic 718), “Improvements to Nonemployee Share-Based Payment Accounting.” The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Corporation has not historically granted share based payment awards to nonemployees other than to the Corporation's Board of Directors, who are treated as employees for share-based payment accounting. As a result, Management does not expect the adoption of this ASU to have an impact on our Consolidated Financial Statements and related disclosures.

FASB ASU 2017-4 (Topic 350), “Intangibles – Goodwill and Others”

Issued in January 2017, ASU 2017-4 simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. ASU 2017-4 is effective for annual periods beginning after December 15, 2019 including interim periods within those periods. Management does not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements and related disclosures.

FASB ASU 2016-13 (Topic 326), “Measurement of Credit Losses on Financial Instruments”

Issued in June 2016, ASU 2016-13 significantly changes how companies measure and recognize credit impairment for many financial assets. The new current expected credit loss (“CECL”) model will require companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are in the scope of the standard. The ASU also makes targeted amendments to the current impairment model for available-for-sale debt securities. ASU 2016-13 is effective for the annual and interim periods in fiscal years beginning after December 15, 2019, with early adoption permitted. Adoption of this new guidance can be applied only on a prospective basis as a cumulative-effect adjustment to retained earnings.

It is expected that the new model will include different assumptions used in calculating credit losses, such as estimating losses over the estimated life of a financial asset, and will consider expected future changes in macroeconomic conditions. The adoption of this ASU may result in an increase to the Corporation’s allowance for credit losses, which will depend upon the nature and characteristics of the Corporation 's portfolio at the adoption date, as well as the macroeconomic conditions and forecasts at the adoption date. The Corporation has engaged the services of a third-party consultant as well as invested in software designed to assist management in the development and implementation of the new CECL model. Management is currently in the process of validating historical data uploaded within the third-party software. The adoption of this ASU will also require the addition of an allowance for held-to-maturity debt securities. The Corporation currently does not intend to early adopt this new guidance.

FASB ASU 2016-2 (Topic 842), “Leases”

Issued in February 2016, ASU 2016-2 revises 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. The new lease guidance also simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. ASU 2016-2 is effective for the first interim period within annual periods beginning after December 15, 2018, with early adoption permitted. The standard is required to be adopted using the modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Management is in-process of refining and reviewing the key assumptions needed to finalize the calculation of the lease liability and a right-of-use asset for all existing leases of the Corporation. Management is aware that the adoption of this ASU will impact the Corporation’s balance sheet for the recording of assets and liabilities for operating leases. Any additional assets recorded as a result of implementation will have a negative impact on the Corporation and Bank capital ratios under current regulatory guidance.

Note 3 - Business Combinations

Domenick & Associates (“Domenick”)

The Bank's subsidiary, BMT Insurance Advisors, Inc., completed the acquisition of Domenick, a full-service insurance agency established in 1993 and headquartered in the Old City section of Philadelphia, on May 1, 2018. The consideration paid was $1.5 million, of which $750 thousand was paid at closing, with three contingent cash payments, not to exceed $250 thousand each, to be payable on each of May 1, 2019, May 1, 2020, and May 1, 2021, subject to the attainment of certain targets during the related periods.

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

Table of Contents

(dollars in thousands)	
Consideration paid:	
Cash paid at closing	$750
Contingent payment liability (present value)	706
Value of consideration	$1,456
Assets acquired:	
Cash and due from banks	370
Intangible assets - customer relationships	779
Premises and equipment	1
Other assets	316
Total assets	1,466
Liabilities assumed:	
Accounts payable	657
Other liabilities	30
Total liabilities	$687
Net assets acquired	$779
Goodwill resulting from acquisition of Domenick	$677

As of June 30, 2018, the estimates of the fair value of identifiable assets acquired and liabilities assumed in the Domenick acquisition were final.

Royal Bancshares of Pennsylvania, Inc.

On December 15, 2017, the previously announced merger of Royal Bancshares of Pennsylvania, Inc. (“RBPI”) with and into the Corporation (the “RBPI Merger”), and the merger of Royal Bank America with and into the Bank, as contemplated by the Agreement and Plan of Merger, by and between RBPI and the Corporation, dated as of January 30, 2017 (the “Agreement”) were completed. In accordance with the Agreement, the aggregate share consideration paid to RBPI shareholders consisted of 3,101,316 shares of the Corporation’s common stock. Shareholders of RBPI received 0.1025 shares of Corporation common stock for each share of RBPI Class A common stock and 0.1179 shares of Corporation common stock for each share of RBPI Class B common stock owned as of the effective date of the RBPI Merger, with cash-in-lieu of fractional shares totaling $7 thousand. Holders of in-the-money options to purchase RBPI Class A common stock received cash totaling $112 thousand. In addition, 1,368,040 warrants to purchase Class A common stock of RBPI, valued at $1.9 million were converted to 140,224 warrants to purchase Corporation common stock. In accordance with the acquisition method of accounting, assets acquired and liabilities assumed were preliminarily adjusted to their fair values as of the date of the RBPI Merger. The excess of consideration paid above the fair value of net assets acquired was recorded as goodwill. This goodwill is not amortizable nor is it deductible for income tax purposes.

In connection with the RBPI Merger, the consideration paid and the estimated fair value of identifiable assets acquired and liabilities assumed as of the date of the RBPI Merger, which include the effects of any measurement period adjustments in accordance with ASC 805-10, are summarized in the following table:

Table of Contents

(dollars in thousands)	
Consideration paid:	
Common shares issued (3,101,316)	$136,768
Cash in lieu of fractional shares	7
Cash-out of certain options	112
Fair value of warrants assumed	1,853
Value of consideration	$138,740
Assets acquired:	
Cash and due from banks	17,092
Investment securities available for sale	121,587
Loans	567,308
Premises and equipment	8,264
Deferred income taxes	34,208
Bank-owned life insurance	16,550
Core deposit intangible	4,670
Favorable lease asset	566
Other assets	13,996
Total assets	$784,241
Liabilities assumed:	
Deposits	593,172
FHLB and other long-term borrowings	59,568
Short-term borrowings	15,000
Junior subordinated debentures	21,416
Unfavorable lease liability	322
Other liabilities	31,381
Total liabilities	$720,859
Net assets acquired	$63,382
Goodwill resulting from acquisition of RBPI	$75,358

Provisional Estimates of Fair Value of Certain Assets Acquired in the RBPI Merger
As of June 30, 2018, the accounting for the estimates of fair value for certain loans acquired in the RBPI Merger is incomplete. The Corporation is in the process of obtaining new information that will allow management to better estimate fair values that existed as of December 15, 2017. When this information is obtained, management anticipates an adjustment to the provisional fair value assigned to certain acquired loans. These adjustments will result in corresponding adjustments to goodwill and net deferred tax asset. In accordance with ASC 805-10, the adjustments will be recorded in the period in which the new information about facts and circumstances that existed as of the acquisition date is obtained and reviewed.

During the six months ended June 30, 2018, the Corporation adjusted certain provisional fair value estimates related to the RBPI Merger. The following table details the changes in fair value of the net assets acquired and liabilities assumed as of December 15, 2017 from the amounts originally reported in the Corporation’s 2017 Annual Report for the year ended December 31, 2017:

Table of Contents

(dollars in thousands)	
Goodwill resulting from the acquisition of RBPI reported as of December 31, 2017	$72,762
Value of Consideration Adjustment:	
Common shares issued (2,562)	113
Fair Value Adjustments:	
Loans	3,065
Other assets	491
Deferred income taxes	(1,073)
Total Fair Value Adjustments	2,483
Goodwill from the acquisition of RBPI as of June 30, 2018	$75,358

Methods Used to Fair Value Assets and Liabilities

For information regarding the valuation methodologies used to estimate the fair values of major categories of assets acquired and liabilities assumed, refer to Note 2 in the Notes to Consolidated Financial Statements in our 2017 Annual Report.

Loans held for investment

During the first quarter of 2018, new information became available related to certain loans acquired from RBPI, which resulted in an adjustment to the fair value mark applied to acquired loans with evidence of credit quality deterioration. There were no adjustments to the fair value mark applied to the acquired loan portfolio during the second quarter of 2018. Loans meeting this definition were reviewed by comparing the contractual cash flows to expected collectible cash flows. The aggregate expected cash flows less the acquisition date fair value results in an accretable yield amount. The accretable yield amount will be recognized over the life of the loans or over the recovery period of the underlying collateral on a level yield basis as an adjustment to yield. As a result of the adjustments, the Corporation recorded a $3.0 million increase in nonaccretable difference in the first quarter of 2018. The adjustment to the aggregate expected cash flows less the acquisition date fair value resulted in an increase in accretable yield of $207 thousand.

The following table provides an updated summary of the acquired impaired loans and leases as of December 15, 2017, which include the effects of any measurement period adjustments in accordance with ASC 805-10, resulting from the RBPI Merger:

(dollars in thousands)	
Contractually required principal and interest payments	$38,404
Contractual cash flows not expected to be collected (nonaccretable difference)	(16,025)
Cash flows expected to be collected	22,379
Interest component of expected cash flows (accretable yield)	(2,526)
Fair value of loans acquired with deterioration of credit quality	$19,853

Harry R. Hirshorn & Company, Inc., d/b/a Hirshorn Boothby (“Hirshorn”)

The acquisition of Hirshorn, an insurance agency headquartered in the Chestnut Hill section of Philadelphia, was completed on May 24, 2017. Immediately after the acquisition, Hirshorn was merged into the Bank’s existing insurance subsidiary, BMT Insurance Advisors, Inc., formerly known as Powers Craft Parker and Beard, Inc (“PCPB”).

The consideration paid by the Bank was $7.5 million, of which $5.8 million was paid at closing, with three contingent cash payments, not to exceed $575 thousand each, to be payable on each of May 24, 2018, May 24, 2019, and May 24, 2020, subject to the attainment of certain targets during the related periods. The acquisition enhanced the Bank's ability to offer comprehensive insurance solutions to both individual and business clients and continues the strategy of selectively establishing specialty offices in targeted areas.

Table of Contents

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

(dollars in thousands)	
Consideration paid:	
Cash paid at closing	$5,770
Contingent payment liability (present value)	1,690
Value of consideration	7,460
Assets acquired:	
Cash operating accounts	978
Intangible assets – trade name	195
Intangible assets – customer relationships	2,672
Intangible assets – non-competition agreements	41
Premises and equipment	1,795
Accounts receivable	192
Other assets	27
Total assets	5,900
Liabilities assumed:	
Accounts payable	800
Other liabilities	2
Total liabilities	802
Net assets acquired	5,098
Goodwill resulting from acquisition of Hirshorn	$2,362

As of December 31, 2017, the estimates of the fair value of identifiable assets acquired and liabilities assumed in the Hirshorn acquisition were final.

Pro Forma Income Statements (unaudited)

The following table presents the pro forma income statement of the combined institution (RBPI and the Corporation) for the three and six months ended June 30, 2017 as if the RBPI Merger had occurred on January 1, 2017. The pro forma income statement adjustments are limited to the effects of purchase accounting fair value mark amortization and accretion and intangible asset amortization. No cost savings or additional merger expenses have been included in the pro forma income statement. Due to the immaterial contribution to net income of the Hirshorn acquisition, which occurred during the year shown in the table, the pro forma effects of the Hirshorn acquisition have been excluded.

Table of Contents

(dollars in thousands)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Total interest income	$ 42,337	$ 83,564
Total interest expense	4,971	9,533
Net interest income	37,366	74,031
Provision for loan and lease losses	(26)	562
Net interest income after provision for loan and lease losses	37,392	73,469
Total noninterest income	15,728	29,466
Total noninterest expenses*	34,040	66,335
Income before income taxes	19,080	36,600
Income tax expense	6,526	12,463
Net income	$ 12,554	$ 24,137
Per share data**:		
Weighted-average basic shares outstanding	20,083,317	20,068,185
Dilutive shares	278,199	267,210
Adjusted weighted-average diluted shares	20,361,516	20,335,395
Basic earnings per common share	$ 0.63	$ 1.20
Diluted earnings per common share	$ 0.62	$ 1.19

* Total noninterest expense includes RBPI Net Income Attributable to Noncontrolling Interest and Preferred Stock Series A Accumulated Dividend and Accretion for pro forma presentation.

** Assumes that the shares of RBPI common stock outstanding as of December 31, 2017 were outstanding for the full three and six month periods ended June 30, 2017.

Due Diligence, Merger-Related and Merger Integration Expenses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Advertising	$2	$19	$61	$19
Employee Benefits	68	5	271	5
Occupancy and bank premises	289	—	2,145	—
Furniture, fixtures, and equipment	186	6	365	6
Information technology	142	259	254	259
Professional fees	510	542	1,257	938
Salaries and wages	477	320	823	400
Other	1,378	85	2,195	120
Total due diligence, merger-related and merger integration expenses	$3,052	$1,236	$7,371	$1,747

Page 15

Table of Contents

Note 4 - Investment Securities

The amortized cost and fair value of investment securities available for sale as of June 30, 2018 and December 31, 2017 are as follows:

As of June 30, 2018

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 100	$ —	$ —	$ 100
Obligations of the U.S. government and agencies	187,850	21	(4,615)	183,256
Obligations of state and political subdivisions	17,483	11	(69)	17,425
Mortgage-backed securities	298,704	416	(6,557)	292,563
Collateralized mortgage obligations	38,077	16	(1,459)	36,634
Other investment securities	1,100	—	(3)	1,097
Total	$ 543,314	$ 464	$ (12,703)	$ 531,075

As of December 31, 2017

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 200,077	$ 11	$ —	$ 200,088
Obligations of the U.S. government and agencies	153,028	75	(2,059)	151,044
Obligations of state and political subdivisions	21,352	11	(53)	21,310
Mortgage-backed securities	275,958	887	(1,855)	274,990
Collateralized mortgage obligations	37,596	14	(948)	36,662
Other investment securities	4,813	318	(23)	5,108
Total	$ 692,824	$ 1,316	$ (4,938)	$ 689,202

The following tables present the aggregate amount of gross unrealized losses as of June 30, 2018 and December 31, 2017 on available for sale investment securities classified according to the amount of time those securities have been in a continuous unrealized loss position:

As of June 30, 2018

	Less than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of the U.S. government and agencies	$ 154,255	$ (3,361)	$ 28,237	$ (1,254)	$ 182,492	$ (4,615)
Obligations of state and political subdivisions	5,907	(16)	1,563	(53)	7,470	(69)
Mortgage-backed securities	228,831	(5,183)	37,068	(1,374)	265,899	(6,557)
Collateralized mortgage obligations	6,800	(130)	23,815	(1,329)	30,615	(1,459)
Other investment securities	797	(3)	—	—	797	(3)
Total	$ 396,590	$ (8,693)	$ 90,683	$ (4,010)	$ 487,273	$ (12,703)

Table of Contents

As of December 31, 2017

(dollars in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of the U.S. government and agencies	$114,120	$(1,294)	$26,726	$(765)	$140,846	$(2,059)
Obligations of state and political subdivisions	11,144	(29)	2,709	(24)	13,853	(53)
Mortgage-backed securities	177,919	(1,293)	31,787	(562)	209,706	(1,855)
Collateralized mortgage obligations	5,166	(47)	26,686	(901)	31,852	(948)
Other investment securities	1,805	(23)	—	—	1,805	(23)
Total	$310,154	$(2,686)	$87,908	$(2,252)	$398,062	$(4,938)

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

As of June 30, 2018 and December 31, 2017, securities having a fair value of $127.2 million and $126.2 million, respectively, were specifically pledged as collateral for public funds, trust deposits, the FRB discount window program, FHLB borrowings and other purposes. Advances by the FHLB are collateralized by a blanket lien on non-pledged, mortgage-related loans as part of the Corporation’s borrowing agreement with the FHLB as well as certain securities individually pledged by the Corporation.

The amortized cost and fair value of available for sale investment and mortgage-related securities available for sale as of June 30, 2018 and December 31, 2017, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(dollars in thousands)	June 30, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities:				
Due in one year or less	$10,137	$10,132	$211,019	$211,019
Due after one year through five years	165,647	161,611	126,452	124,797
Due after five years through ten years	16,539	16,099	23,147	22,804
Due after ten years	14,210	14,036	15,439	15,421
Subtotal	206,533	201,878	376,057	374,041
Mortgage-related securities(1)	336,781	329,197	313,554	311,652
Mutual funds with no stated maturity	—	—	3,213	3,509
Total	$543,314	$531,075	$692,824	$689,202

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

Page 17

Table of Contents

The amortized cost and fair value of investment securities held to maturity as of June 30, 2018 and December 31, 2017 are as follows:

As of June 30, 2018

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 7,838	$ —	$ (291)	$ 7,547

As of December 31, 2017

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 7,932	$ 5	$ (86)	$ 7,851

The following tables present the aggregate amount of gross unrealized losses as of June 30, 2018 and December 31, 2017 on held to maturity securities classified according to the amount of time those securities have been in a continuous unrealized loss position:

As of June 30, 2018

	Less than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$4,900	$ (167)	$2,647	$ (124)	$7,547	$ (291)

As of December 31, 2017

	Less than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$2,756	$ (25)	$3,866	$ (61)	$6,622	$ (86)

The amortized cost and fair value of held to maturity investment securities as of June 30, 2018 and December 31, 2017, by contractual maturity, are shown below:

	June 30, 2018		December 31, 2017	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed securities[1]	$7,838	$7,547	$7,932	$7,851

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

As of June 30, 2018 and December 31, 2017, the Corporation's investment securities held in trading accounts totaled $8.2 million and $4.6 million, respectively, and consisted of deferred compensation trust accounts which are invested in listed mutual funds whose diversification is at the discretion of the deferred compensation plan participants and, as of the first quarter of 2018, a rabbi trust account established to fund certain unqualified pension obligations. During the first quarter of 2018, $3.2 million of investment securities included within the rabbi trust account were reclassified from available for sale to trading. Investment securities held in trading accounts are reported at fair value, with adjustments in fair value reported through income.

Table of Contents

Note 5 - Loans and Leases

The loan and lease portfolio consists of loans and leases originated by the Corporation, as well as loans acquired in mergers and acquisitions. These mergers and acquisitions include the December 2017 RBPI Merger, the January 2015 Continental Bank Holdings, Inc. Merger, the November 2012 transaction with First Bank of Delaware, and the July 2010 acquisition of First Keystone Financial, Inc. Certain tables in this footnote are presented with a breakdown between originated and acquired loans and leases.

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

	June 30, 2018			December 31, 2017		
(dollars in thousands)	Originated	Acquired	Total Loans and Leases	Originated	Acquired	Total Loans and Leases
Loans held for sale	$4,204	$—	$4,204	$3,794	$—	$3,794
Real Estate Loans:						
Commercial mortgage	$1,237,885	$375,836	$1,613,721	$1,122,327	$401,050	$1,523,377
Home equity lines and loans	176,771	29,658	206,429	183,283	34,992	218,275
Residential mortgage	358,271	90,789	449,060	360,935	97,951	458,886
Construction	147,636	43,238	190,874	128,266	84,188	212,454
Total real estate loans	$1,920,563	$539,521	$2,460,084	$1,794,811	$618,181	$2,412,992
Commercial and industrial	632,917	112,389	745,306	589,304	130,008	719,312
Consumer	49,828	1,634	51,462	35,146	3,007	38,153
Leases	97,506	35,143	132,649	68,035	47,366	115,401
Total portfolio loans and leases	$2,700,814	$688,687	$3,389,501	$2,487,296	$798,562	$3,285,858
Total loans and leases	$2,705,018	$688,687	$3,393,705	$2,491,090	$798,562	$3,289,652
Loans with fixed rates	$1,127,713	$412,461	$1,540,174	$1,034,542	$538,510	$1,573,052
Loans with adjustable or floating rates	1,577,305	276,226	1,853,531	1,456,548	260,052	1,716,600
Total loans and leases	$2,705,018	$688,687	$3,393,705	$2,491,090	$798,562	$3,289,652
Net deferred loan origination fees included in the above loan table	$1,200	$—	$1,200	$887	$—	$887

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

	June 30, 2018			December 31, 2017		
(dollars in thousands)	Originated	Acquired	Total Leases	Originated	Acquired	Total Leases
Minimum lease payments receivable	$108,718	$39,656	$148,374	$75,592	$55,219	$130,811
Unearned lease income	(15,735)	(5,534)	(21,269)	(10,338)	(9,523)	(19,861)
Initial direct costs and deferred fees	4,523	1,021	5,544	2,781	1,670	4,451
Total Leases	$97,506	$35,143	$132,649	$68,035	$47,366	$115,401

Page 19

Table of Contents

C. Non-Performing Loans and Leases[1]

(dollars in thousands)	June 30, 2018 Originated	Acquired	Total Loans and Leases	December 31, 2017 Originated	Acquired	Total Loans and Leases
Commercial mortgage	$—	$ 1,011	$1,011	$90	$ 782	$872
Home equity lines and loans	1,833	490	2,323	1,221	260	1,481
Residential mortgage	1,615	1,032	2,647	1,505	2,912	4,417
Commercial and industrial	1,011	574	1,585	826	880	1,706
Leases	575	1,307	1,882	103	—	103
Total non-performing loans and leases	$5,034	$ 4,414	$9,448	$3,745	$ 4,834	$8,579

(1) Purchased credit-impaired loans, which have been recorded at their fair values at acquisition, and which are performing, are excluded from this table, with the exception of $87 thousand and $167 thousand of purchased credit-impaired loans as of June 30, 2018 and December 31, 2017, respectively, which became non-performing subsequent to acquisition.

D. Purchased Credit-Impaired Loans

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

(dollars in thousands)	June 30, 2018	December 31, 2017
Outstanding principal balance	$38,791	$ 46,543
Carrying amount[1]	$27,601	$ 30,849

(1) Includes $88 thousand and $173 thousand of purchased credit-impaired loans as of June 30, 2018 and December 31, 2017, respectively, for which the Corporation could not estimate the timing or amount of expected cash flows to be collected at acquisition, and for which no accretable yield is recognized. Additionally, the table above includes $87 thousand and $167 thousand of purchased credit-impaired loans as of June 30, 2018 and December 31, 2017, respectively, which became non-performing subsequent to acquisition, which are disclosed in Note 5C, above, and which also have no accretable yield.

The following table presents changes in the accretable discount on purchased credit-impaired loans, for which the Corporation applies ASC 310-30, for the six months ended June 30, 2018:

(dollars in thousands)	Accretable Discount
Balance, December 31, 2017	$ 4,083
Accretion	(1,361)
Reclassifications from nonaccretable difference	110
Additions/adjustments	211
Disposals	—
Balance, June 30, 2018	$ 3,043

Table of Contents

E. Age Analysis of Past Due Loans and Leases

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

As of June 30, 2018 (dollars in thousands)	Accruing Loans and Leases 30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$2,645	$150	$ —	$2,795	$1,609,915	$1,612,710	$ 1,011	$1,613,721
Home equity lines and loans	—	—	—	—	204,106	204,106	2,323	206,429
Residential mortgage	891	127	—	1,018	445,395	446,413	2,647	449,060
Construction	2,854	1,083	—	3,937	186,937	190,874	—	190,874
Commercial and industrial	832	163	—	995	742,726	743,721	1,585	745,306
Consumer	19	—	—	19	51,443	51,462	—	51,462
Leases	786	829	—	1,615	129,152	130,767	1,882	132,649
Total portfolio loans and leases	$8,027	$2,352	$ —	$10,379	$3,369,674	$3,380,053	$ 9,448	$3,389,501

As of December 31, 2017 (dollars in thousands)	Accruing Loans and Leases 30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$1,366	$2,428	$ —	$3,794	$1,518,711	$1,522,505	$ 872	$1,523,377
Home equity lines and loans	338	10	—	348	216,446	216,794	1,481	218,275
Residential mortgage	1,386	79	—	1,465	453,004	454,469	4,417	458,886
Construction	—	—	—	—	212,454	212,454	—	212,454
Commercial and industrial	658	286	—	944	716,662	717,606	1,706	719,312
Consumer	1,106	—	—	1,106	37,047	38,153	—	38,153
Leases	125	177	—	302	114,996	115,298	103	115,401
Total portfolio loans and leases	$4,979	$2,980	$ —	$7,959	$3,269,320	$3,277,279	$ 8,579	$3,285,858

*Included as “current” are $6.5 million and $4.1 million of loans and leases as of June 30, 2018 and December 31, 2017, respectively, which are classified as administratively delinquent. An administratively delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. Management does not consider these loans to be delinquent.

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

As of June 30, 2018 (dollars in thousands)	Accruing Loans and Leases 30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$2,107	$77	$ —	$2,184	$1,235,701	$1,237,885	$ —	$1,237,885
Home equity lines and loans	—	—	—	—	174,938	174,938	1,833	176,771
Residential mortgage	626	64	—	690	355,966	356,656	1,615	358,271

Construction	2,854	1,083	—	3,937	143,699	147,636	—	147,636
Commercial and industrial	766	—	—	766	631,140	631,906	1,011	632,917
Consumer	19	—	—	19	49,809	49,828	—	49,828
Leases	311	508	—	819	96,112	96,931	575	97,506
Total originated portfolio loans and leases	$6,683	$1,732	$ —	$8,415	$2,687,365	$2,695,780	$ 5,034	$2,700,814

Page 21

Table of Contents

As of December 31, 2017 (dollars in thousands)	Accruing Loans and Leases 30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$1,255	$81	$ —	$1,336	$1,120,901	$1,122,237	$ 90	$1,122,327
Home equity lines and loans	26	—	—	26	182,036	182,062	1,221	183,283
Residential mortgage	721	—	—	721	358,709	359,430	1,505	360,935
Construction	—	—	—	—	128,266	128,266	—	128,266
Commercial and industrial	439	236	—	675	587,803	588,478	826	589,304
Consumer	21	—	—	21	35,125	35,146	—	35,146
Leases	125	177	—	302	67,630	67,932	103	68,035
Total originated portfolio loans and leases	$2,587	$494	$ —	$3,081	$2,480,470	$2,483,551	$ 3,745	$2,487,296

*Included as “current” are $6.2 million and $4.0 million of loans and leases as of June 30, 2018 and December 31, 2017, respectively, which are classified as administratively delinquent. An administratively delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. Management does not consider these loans to be delinquent.

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

As of June 30, 2018 (dollars in thousands)	Accruing Loans and Leases 30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$538	$73	$ —	$611	$374,214	$374,825	$ 1,011	$375,836
Home equity lines and loans	—	—	—	—	29,168	29,168	490	29,658
Residential mortgage	265	63	—	328	89,429	89,757	1,032	90,789
Construction	—	—	—	—	43,238	43,238	—	43,238
Commercial and industrial	66	163	—	229	111,586	111,815	574	112,389
Consumer	—	—	—	—	1,634	1,634	—	1,634
Leases	475	321	—	796	33,040	33,836	1,307	35,143
Total acquired portfolio loans and leases	$1,344	$620	$ —	$1,964	$682,309	$684,273	$ 4,414	$688,687

As of December 31, 2017 (dollars in thousands)	Accruing Loans and Leases 30 – 59 Days Past Due	60 – 89 Days Past Due	Over 89 Days Past Due	Total Past Due	Current*	Total Accruing Loans and Leases	Nonaccrual Loans and Leases	Total Loans and Leases
Commercial mortgage	$111	$2,347	$ —	$2,458	$397,810	$400,268	$ 782	$401,050
Home equity lines and loans	312	10	—	322	34,410	34,732	260	34,992
Residential mortgage	665	79	—	744	94,295	95,039	2,912	97,951
Construction	—	—	—	—	84,188	84,188	—	84,188
Commercial and industrial	219	50	—	269	128,859	129,128	880	130,008
Consumer	1,085	—	—	1,085	1,922	3,007	—	3,007

Leases	—	—	—	—	47,366	47,366	—	47,366
Total acquired portfolio loans and leases	$2,392	$2,486	$ —	$4,878	$788,850	$793,728	$ 4,834	$798,562

*Included as “current” are $297 thousand and $102 thousand of loans and leases as of June 30, 2018 and December 31, 2017, respectively, which are classified as administratively delinquent. An administratively delinquent loan is one which has been approved for a renewal or extension but has not had all the required documents fully executed as of the reporting date. Management does not consider these loans to be delinquent.

Page 22

Table of Contents

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

The following tables detail the roll-forward of the Allowance for the three and six months ended June 30, 2018 and 2017:

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Balance, December 31, 2017	$ 7,550	$ 1,086	$ 1,926	$ 937	$ 5,038	$ 246	$ 742	$ —	$ 17,525
Charge-offs	(16)	(225)	—	—	(750)	(92)	(1,348)	—	(2,431)
Recoveries	6	1	1	2	1	3	123	—	137
Provision for loan and lease losses	493	71	6	219	1,383	132	1,863	—	4,167
Balance, June 30, 2018	$ 8,033	$ 933	$ 1,933	$ 1,158	$ 5,672	$ 289	$ 1,380	$ —	$ 19,398

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Balance, March 31, 2018	$ 7,174	$ 1,045	$ 1,898	$ 844	$ 5,361	$ 291	$ 1,049	$ —	$ 17,662
Charge-offs	(16)	(200)	—	—	(467)	(43)	(751)	—	(1,477)
Recoveries	3	1	1	1	—	2	68	—	76
Provision for loan and lease losses	872	87	34	313	778	39	1,014	—	3,137
Balance, June 30, 2018	$ 8,033	$ 933	$ 1,933	$ 1,158	$ 5,672	$ 289	$ 1,380	$ —	$ 19,398

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

Table of Contents

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

The following tables detail the allocation of the Allowance for all portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2018 and December 31, 2017:

As of June 30, 2018

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Allowance on loans and leases:									
Individually evaluated for impairment	$ —	$ 19	$ 299	$ —	$ 104	$ 4	$ —	$ —	$ 426
Collectively evaluated for impairment	8,033	914	1,634	1,158	5,568	285	1,380	—	18,972
Purchased credit-impaired[(1)]	—	—	—	—	—	—	—	—	—
Total	$ 8,033	$ 933	$ 1,933	$ 1,158	$ 5,672	$ 289	$ 1,380	$ —	$ 19,398

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

As of December 31, 2017

(dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Unallocated	Total
Allowance on loans and leases:									
Individually evaluated for impairment	$ —	$ 19	$ 230	$ —	$ 5	$ 4	$ —	$ —	$ 258
Collectively evaluated for impairment	7,550	1,067	1,696	937	5,033	242	742	—	17,267
Purchased credit-impaired[(1)]	—	—	—	—	—	—	—	—	—
Total	$ 7,550	$ 1,086	$ 1,926	$ 937	$ 5,038	$ 246	$ 742	$ —	$ 17,525

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

Table of Contents

The following tables detail the carrying value for all portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2018 and December 31, 2017:

As of June 30, 2018 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Carrying value of loans and leases:								
Individually evaluated for impairment	$1,011	$2,995	$5,603	$—	$1,864	$27	$—	$11,500
Collectively evaluated for impairment	1,603,381	202,923	443,457	188,474	728,081	51,435	132,649	3,350,400
Purchased credit-impaired[1]	9,329	511	—	2,400	15,361	—	—	27,601
Total	$1,613,721	$206,429	$449,060	$190,874	$745,306	$51,462	$132,649	$3,389,501

[1] Purchased credit-impaired loans are evaluated for impairment on an individual basis.

As of December 31, 2017 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Carrying value of loans and leases:								
Individually evaluated for impairment	$2,128	$2,162	$7,726	$—	$1,897	$27	$—	$13,940
Collectively evaluated for impairment	1,503,825	215,604	451,160	204,088	712,865	38,126	115,401	3,241,069
Purchased credit-impaired[1]	17,424	509	—	8,366	4,550	—	—	30,849
Total	$1,523,377	$218,275	$458,886	$212,454	$719,312	$38,153	$115,401	$3,285,858

[1] Purchased credit-impaired loans are evaluated for impairment on an individual basis.

The following tables detail the allocation of the Allowance for originated portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2018 and December 31, 2017:

As of June 30, 2018 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Allowance on loans and leases:								
Individually evaluated for impairment	$ —	$ 19	$ 182	$ —	$ 4	$ 4	$—	$209
Collectively evaluated for impairment	8,033	914	1,634	1,158	5,568	285	1,380	18,972

Total	$ 8,033	$ 933	$ 1,816	$ 1,158	$ 5,572	$ 289	$1,380	$19,181

Table of Contents

As of December 31, 2017 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Allowance on loans and leases:								
Individually evaluated for impairment	$ —	$ 19	$ 180	$ —	$ 5	$ 4	$ —	$ 208
Collectively evaluated for impairment	7,550	1,067	1,696	937	5,033	242	742	17,267
Total	$ 7,550	$ 1,086	$ 1,876	$ 937	$ 5,038	$ 246	$ 742	$ 17,475

The following tables detail the carrying value for originated portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2018 and December 31, 2017:

As of June 30, 2018 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Carrying value of loans and leases:								
Individually evaluated for impairment	$ —	$ 2,505	$ 3,974	$ —	$ 1,377	$ 27	$ —	$ 7,883
Collectively evaluated for impairment	1,237,885	174,266	354,297	147,636	631,540	49,801	97,506	2,692,931
Total	$ 1,237,885	$ 176,771	$ 358,271	$ 147,636	$ 632,917	$ 49,828	$ 97,506	$ 2,700,814

As of December 31, 2017 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 1,345	$ 1,902	$ 4,418	$ —	$ 1,186	$ 27	$ —	$ 8,878
Collectively evaluated for impairment	1,120,982	181,381	356,517	128,266	588,118	35,119	68,035	2,478,418
Total	$ 1,122,327	$ 183,283	$ 360,935	$ 128,266	$ 589,304	$ 35,146	$ 68,035	$ 2,487,296

The following tables detail the allocation of the Allowance for acquired portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2018 and December 31, 2017:

As of June 30, 2018 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Allowance on loans and leases:								

Individually evaluated for impairment	$ —	$ —	$ 117	$ —	$ 100	$ —	$ —	$ 217
Collectively evaluated for impairment	—	—	—	—	—	—	—	—
Purchased credit-impaired[1]	—	—	—	—	—	—	—	—
Total	$ —	$ —	$ 117	$ —	$ 100	$ —	$ —	$ 217

[1] Purchased credit-impaired loans are evaluated for impairment on an individual basis.

Table of Contents

As of December 31, 2017 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Allowance on loans and leases:								
Individually evaluated for impairment	$ —	$ —	$ 50	$ —	$ —	$ —	$ —	$ 50
Collectively evaluated for impairment	—	—	—	—	—	—	—	—
Purchased credit-impaired[(1)]	—	—	—	—	—	—	—	—
Total	$ —	$ —	$ 50	$ —	$ —	$ —	$ —	$ 50

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

The following tables detail the carrying value for acquired portfolio loans and leases by portfolio segment based on the methodology used to evaluate the loans and leases for impairment as of June 30, 2018 and December 31, 2017:

As of June 30, 2018 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 1,011	$ 490	$ 1,629	$ —	$ 487	$ —	$ —	$ 3,617
Collectively evaluated for impairment	365,496	28,657	89,160	40,838	96,541	1,634	35,143	657,469
Purchased credit-impaired[(1)]	9,329	511	—	2,400	15,361	—	—	27,601
Total	$ 375,836	$ 29,658	$ 90,789	$ 43,238	$ 112,389	$ 1,634	$ 35,143	$ 688,687

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

As of December 31, 2017 (dollars in thousands)	Commercial Mortgage	Home Equity Lines and Loans	Residential Mortgage	Construction	Commercial and Industrial	Consumer	Leases	Total
Carrying value of loans and leases:								
Individually evaluated for impairment	$ 783	$ 260	$ 3,308	$ —	$ 711	$ —	$ —	$ 5,062
Collectively evaluated for impairment	382,843	34,223	94,643	75,822	124,747	3,007	47,366	762,651
Purchased credit-impaired[(1)]	17,424	509	—	8,366	4,550	—	—	30,849
Total	$ 401,050	$ 34,992	$ 97,951	$ 84,188	$ 130,008	$ 3,007	$ 47,366	$ 798,562

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

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

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

Table of Contents

- Special mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- Substandard - Loans classified as substandard are inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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

The following tables detail the carrying value of all portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of June 30, 2018 and December 31, 2017:

Credit Risk Profile by Internally Assigned Grade

	Commercial Mortgage		Construction		Commercial and Industrial		Total	
(dollars in thousands)	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Pass	$1,585,083	$1,490,862	$180,805	$193,227	$726,009	$711,145	$2,491,897	$2,395,234
Special Mention	2,357	13,448	2,208	3,902	230	889	4,795	18,239
Substandard	25,717	18,194	7,861	15,325	18,797	6,013	52,375	39,532
Doubtful	564	873	—	—	270	1,265	834	2,138
Total	$1,613,721	$1,523,377	$190,874	$212,454	$745,306	$719,312	$2,549,901	$2,455,143

Credit Risk Profile by Payment Activity

	Residential Mortgage		Home Equity Lines and Loans		Consumer		Leases		Total	
(dollars in thousands)	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Performing	$446,413	$454,469	$204,106	$216,794	$51,462	$38,153	$130,767	$115,298	$832,748	$824,714
Non-performing	2,647	4,417	2,323	1,481	—	—	1,882	103	6,852	6,001
Total	$449,060	$458,886	$206,429	$218,275	$51,462	$38,153	$132,649	$115,401	$839,600	$830,715

The following tables detail the carrying value of originated portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of June 30, 2018 and December 31, 2017:

Credit Risk Profile by Internally Assigned Grade

	Commercial Mortgage		Construction		Commercial and Industrial		Total	
(dollars in thousands)	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017

Pass	$1,228,319	$1,114,171	$140,896	$126,260	$630,227	$586,896	$1,999,442	$1,827,327
Special Mention	990	—	1,279	—	—	664	2,269	664
Substandard	8,576	8,156	5,461	2,006	2,420	1,389	16,457	11,551
Doubtful	—	—	—	—	270	355	270	355
Total	$1,237,885	$1,122,327	$147,636	$128,266	$632,917	$589,304	$2,018,438	$1,839,897

Table of Contents

Credit Risk Profile by Payment Activity

(dollars in thousands)	Residential Mortgage		Home Equity Lines and Loans		Consumer		Leases		Total	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Performing	$356,656	$359,430	$174,938	$182,062	$49,828	$35,146	$96,931	$67,932	$678,353	$644,570
Non-performing	1,615	1,505	1,833	1,221	—	—	575	103	4,023	2,829
Total	$358,271	$360,935	$176,771	$183,283	$49,828	$35,146	$97,506	$68,035	$682,376	$647,399

The following tables detail the carrying value of acquired portfolio loans and leases by portfolio segment based on the credit quality indicators used to determine the Allowance as of June 30, 2018 and December 31, 2017:

Credit Risk Profile by Internally Assigned Grade

(dollars in thousands)	Commercial Mortgage		Construction		Commercial and Industrial		Total	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Pass	$356,764	$376,691	$39,909	$ 66,967	$95,782	$124,249	$492,455	$567,907
Special Mention	1,367	13,448	929	3,902	230	225	2,526	17,575
Substandard	17,141	10,038	2,400	13,319	16,377	4,624	35,918	27,981
Doubtful	564	873	—	—	—	910	564	1,783
Total	$375,836	$401,050	$43,238	$ 84,188	$112,389	$130,008	$531,463	$615,246

Credit Risk Profile by Payment Activity

(dollars in thousands)	Residential Mortgage		Home Equity Lines and Loans		Consumer		Leases		Total	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Performing	$89,757	$95,039	$29,168	$34,732	$1,634	$ 3,007	$33,836	$47,366	$154,395	$180,144
Non-performing	1,032	2,912	490	260	—	—	1,307	—	2,829	3,172
Total	$90,789	$97,951	$29,658	$34,992	$1,634	$ 3,007	$35,143	$47,366	$157,224	$183,316

G. Troubled Debt Restructurings (“TDRs”)

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

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

Table of Contents

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

(dollars in thousands)	June 30, 2018	December 31, 2017
TDRs included in nonperforming loans and leases	$ 1,044	$ 3,289
TDRs in compliance with modified terms	4,117	5,800
Total TDRs	$ 5,161	$ 9,089

The following table presents information regarding loan and lease modifications categorized as TDRs for the three months ended June 30, 2018:

	For the Three Months Ended June 30, 2018		
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Home equity loans and lines	1	$ 8	$ 8
Residential mortgages	2	219	219
Leases	2	33	33
Total	5	$ 260	$ 260

The following table presents information regarding the types of loan and lease modifications made for the three months ended June 30, 2018:

	Number of Contracts				
	Loan Term Extension	Interest Rate Change and Term Extension	Interest Rate Change and/or Interest-Only Period	Contractual Payment Reduction (Leases only)	Temporary Payment Deferral
Home equity loans and lines	—	1	—	—	—
Residential mortgages	1	1	—	—	—
Leases	—	—	—	2	—
Total	1	2	—	2	—

The following table presents information regarding loan and lease modifications categorized as TDRs for the six months ended June 30, 2018:

	For the Six Months Ended June 30, 2018		
(dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Home equity loans and lines	1	$ 8	$ 8
Residential mortgages	2	219	219
Commercial and industrial	1	18	18
Leases	2	33	33
Total	6	$ 278	$ 278

Table of Contents

The following table presents information regarding the types of loan and lease modifications made for the six months ended June 30, 2018:

	Number of Contracts				
	Loan Term Extension	Interest Rate Change and Term Extension	Interest Rate Change and/or Interest-Only Period	Contractual Payment Reduction (Leases only)	Temporary Payment Deferral
Home equity loans and lines	—	1	—	—	—
Residential mortgages	1	1	—	—	—
Commercial and industrial	—	1	—	—	—
Leases	—	—	—	2	—
Total	1	3	—	2	—

During the six months ended June 30, 2018, one home equity line of credit with a principal balance of $25 thousand and one lease with a principal balance of $50 thousand, which had been previously modified to troubled debt restructurings defaulted and were charged off.

H. Impaired Loans

The following tables detail the recorded investment and principal balance of impaired loans by portfolio segment, their related Allowance and interest income recognized for the three and six months ended June 30, 2018 and 2017 (purchased credit-impaired loans are not included in the tables):

As of and for the Three Months Ended June 30, 2018 (dollars in thousands)	Recorded Investment**	Principal Balance	Related Allowance	Average Principal Balance	Interest Income Recognized	Cash-Basis Interest Income Recognized
Impaired loans with related allowance:						
Home equity lines and loans	$ 570	$ 570	$ 19	$ 572	$ 6	$ —
Residential mortgage	2,379	2,379	299	2,383	22	—
Commercial and industrial	267	362	104	314	—	—
Consumer	27	27	4	27	—	—
Total	$ 3,243	$ 3,338	$ 426	$ 3,296	$ 28	$ —
Impaired loans without related allowance*:						
Commercial mortgage	$ 1,011	$ 1,010	$ —	$ 1,022	$ —	$ —
Home equity lines and loans	2,425	2,487	—	2,450	2	—
Residential mortgage	3,223	3,265	—	3,236	19	—
Commercial and industrial	1,598	2,300	—	1,620	5	—
Total	$ 8,257	$ 9,062	$ —	$ 8,328	$ 26	$ —
Grand total	$ 11,500	$ 12,400	$ 426	$ 11,624	$ 54	$ —

*The table above does not include the recorded investment of $2.0 million of impaired leases without a related Allowance.

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

Table of Contents

As of and for the Six Months Ended June 30, 2018 (dollars in thousands)	Recorded Investment**	Principal Balance	Related Allowance	Average Principal Balance	Interest Income Recognized	Cash-Basis Interest Income Recognized
Impaired loans with related allowance:						
Home equity lines and loans	$ 570	$ 570	$ 19	$ 574	$ 11	$ —
Residential mortgage	2,379	2,379	299	2,387	45	—
Commercial and industrial	267	362	104	391	—	—
Consumer	27	27	4	27	1	—
Total	$ 3,243	$ 3,338	$ 426	$ 3,379	$ 57	$ —
Impaired loans without related allowance*:						
Commercial mortgage	$ 1,011	$ 1,010	$ —	$ 771	$ 6	$ —
Home equity lines and loans	2,425	2,487	—	2,473	8	—
Residential mortgage	3,223	3,265	—	3,105	41	—
Commercial and industrial	1,598	2,300	—	1,569	12	—
Total	$ 8,257	$ 9,062	$ —	$ 7,918	$ 67	$ —
Grand total	$ 11,500	$ 12,400	$ 426	$ 11,297	$ 124	$ —

*The table above does not include the recorded investment of $2.0 million of impaired leases without a related Allowance.

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

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

*The table above does not include the recorded investment of $380 thousand of impaired leases without a related Allowance.

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

Table of Contents

As of and for the Six Months Ended June 30, 2017 (dollars in thousands)	Recorded Investment**	Principal Balance	Related Allowance	Average Principal Balance	Interest Income Recognized	Cash-Basis Interest Income Recognized
Impaired loans with related allowance:						
Home equity lines and loans	$ 21	$ 21	$ 3	$ 21	$ 1	$ —
Residential mortgage	1,578	1,578	112	1,585	41	—
Consumer	38	38	14	39	1	—
Total	$ 1,637	$ 1,637	$ 129	$ 1,645	$ 43	$ —
Impaired loans without related allowance*:						
Commercial mortgage	$ 2,071	$ 2,106	$ —	$ 2,117	$ 39	$ —
Home equity lines and loans	1,514	2,054	—	1,579	3	—
Residential mortgage	5,371	5,712	—	5,521	76	—
Commercial and industrial	2,140	2,796	—	2,367	6	—
Total	$ 11,096	$ 12,668	$ —	$ 11,584	$ 124	$ —
Grand total	$ 12,733	$ 14,305	$ 129	$ 13,229	$ 167	$ —

*The table above does not include the recorded investment of $380 thousand of impaired leases without a related Allowance.

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

(dollars in thousands) As of December 31, 2017	Recorded Investment (2)	Principal Balance	Related Allowance
Impaired loans with related allowance:			
Home equity lines and loans	$ 577	$ 577	$ 19
Residential mortgage	2,436	2,435	230
Commercial and industrial	18	19	5
Consumer	27	27	4
Total	3,058	3,058	258
Impaired loans without related allowance(1):			
Home equity lines and loans	$ 1,585	$ 1,645	$ —
Residential mortgage	5,290	5,529	—
Commercial and industrial	1,879	3,613	—
Commercial mortgage	2,128	2,218	—
Total	$ 10,882	$ 13,005	$ —
Grand total	$ 13,940	$ 16,063	$ 258

(1) The table above does not include the recorded investment of $272 thousand of impaired leases without a related Allowance.

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

I. Loan Mark

Loans acquired in mergers and acquisitions are recorded at fair value as of the date of the transaction. This adjustment to the acquired principal amount is referred to as the “Loan Mark”. With the exception of purchased credit impaired loans, for which the Loan Mark is accounted under ASC 310-30, the Loan Mark is amortized or accreted as an adjustment to yield over the lives of the loans.

The following tables detail, for acquired loans, the outstanding principal, remaining loan mark, and recorded investment, by portfolio segment, as of the dates indicated:

Table of Contents

(dollars in thousands)	As of June 30, 2018 Outstanding Principal	Remaining Loan Mark	Recorded Investment
Commercial mortgage	$385,801	$(9,965)	$375,836
Home equity lines and loans	32,271	(2,613)	29,658
Residential mortgage	93,916	(3,127)	90,789
Construction	43,676	(438)	43,238
Commercial and industrial	121,265	(8,876)	112,389
Consumer	1,669	(35)	1,634
Leases	36,792	(1,649)	35,143
Total	$715,390	$(26,703)	$688,687

(dollars in thousands)	As of December 31, 2017 Outstanding Principal	Remaining Loan Mark	Recorded Investment
Commercial mortgage	$412,263	$(11,213)	$401,050
Home equity lines and loans	37,944	(2,952)	34,992
Residential mortgage	101,523	(3,572)	97,951
Construction	86,081	(1,893)	84,188
Commercial and industrial	141,960	(11,952)	130,008
Consumer	3,051	(44)	3,007
Leases	50,530	(3,164)	47,366
Total	$833,352	$(34,790)	$798,562

Note 6 - Mortgage Servicing Rights

The following table summarizes the Corporation’s activity related to mortgage servicing rights (“MSRs”) for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,	
(dollars in thousands)	2018	2017
Balance, beginning of period	$5,706	$5,686
Additions	—	213
Amortization	(196)	(173)
Recovery / (Impairment)	1	(43)
Balance, end of period	$5,511	$5,683
Fair value	$6,695	$6,057

	Six Months Ended June 30,	
(dollars in thousands)	2018	2017
Balance, beginning of period	$5,861	$5,582
Additions	16	489
Amortization	(417)	(342)
Recovery / (Impairment)	51	(46)
Balance, end of period	$5,511	$5,683
Fair value	$6,695	$6,057
Residential mortgage loans serviced for others	$614,259	$631,888

As of June 30, 2018, and December 31, 2017, key economic assumptions and the sensitivity of the current fair value of MSRs to immediate 10% and 20% percent adverse changes in those assumptions are as follows:

Table of Contents

(dollars in thousands)	June 30, 2018	December 31, 2017
Fair value amount of MSRs	$6,695	$ 6,397
Weighted average life (in years)	6.6	6.1
Prepayment speeds (constant prepayment rate)*	9.0 %	10.3 %
Impact on fair value:		
10% adverse change	$(112)	$ (194)
20% adverse change	$(242)	$ (394)
Discount rate	9.55 %	9.55 %
Impact on fair value:		
10% adverse change	$(247)	$ (225)
20% adverse change	$(477)	$ (434)

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

At June 30, 2018 and December 31, 2017 the fair value of the MSRs was $6.7 million and $6.4 million, respectively. The fair value of the MSRs for these dates was determined using values obtained from a third party which utilizes a valuation model which calculates the present value of estimated future servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds and discount rates. Mortgage loan prepayment speed is the annual rate at which borrowers are forecasted to repay their mortgage loan principal and is based on historical experience. The discount rate is used to determine the present value of future net servicing income. Another key assumption in the model is the required rate of return the market would expect for an asset with similar risk. These assumptions can, and generally will, change quarterly valuations as market conditions and interest rates change. Management reviews, annually, the process utilized by its independent third-party valuation experts.

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

Note 7 - Goodwill and Other Intangibles

The following table presents activity in the Corporation's goodwill by its reporting units and finite-lived and indefinite-lived intangible assets, other than MSRs, for the three months ended June 30, 2018:

(dollars in thousands)	Balance December 31, 2017	Additions	Adjustments	Amortization	Balance June 30, 2018	Amortization Period
Goodwill – Wealth	$20,412	$ —	$ —	$ —	$20,412	Indefinite
Goodwill – Banking	153,545	—	2,596	—	156,141	Indefinite
Goodwill – Insurance	5,932	677	—	—	6,609	Indefinite
Total Goodwill	$179,889	$ 677	$ 2,596	$ —	$183,162	
Core deposit intangible	$7,380	$ —	$ —	$ (742)	$6,638	10 years
Customer relationships	14,173	779	—	(833)	14,119	10 to 20 years
Non-compete agreements	1,319	—	—	(121)	1,198	5 to 10 years
Trade name	2,322	—	—	(32)	2,290	3 years to Indefinite
Domain name	151	—	—	—	151	Indefinite
Favorable lease assets	621	—	—	(40)	581	1 to 16 years

Total Intangible Assets	$25,966	$ 779	$ —	$ (1,768)	$24,977
Total Goodwill and Intangible Assets	$205,855	$ 1,456	$ 2,596	$ (1,768)	$208,139

Table of Contents

Management conducted its annual impairment tests for goodwill and indefinite-lived intangible assets as of October 31, 2017 using generally accepted valuation methods. Management determined that no impairment of goodwill or indefinite-lived intangible assets was identified as a result of the annual impairment analyses. Future impairment testing will be conducted each October 31, unless a triggering event occurs in the interim that would suggest possible impairment, in which case it would be tested as of the date of the triggering event. For the eight months ended June 30, 2018, management determined there were no events that would necessitate impairment testing of goodwill or indefinite-lived intangible assets.

Note 8 - Deposits

The following table details the components of deposits:

(dollars in thousands)	June 30, 2018	December 31, 2017
Interest-bearing demand	$617,258	$ 481,336
Money market	814,530	862,639
Savings	291,858	338,572
Retail time deposits	536,287	532,202
Wholesale non-maturity deposits	36,826	62,276
Wholesale time deposits	169,770	171,929
Total interest-bearing deposits	2,466,529	2,448,954
Noninterest-bearing deposits	892,386	924,844
Total deposits	$3,358,915	$ 3,373,798

Note 9 - Short-Term Borrowings and Long-Term FHLB Advances

A. Short-term borrowings

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

A summary of short-term borrowings is as follows:

(dollars in thousands)	June 30, 2018	December 31, 2017
Repurchase agreements* – commercial customers	$17,159	$ 25,865
Short-term FHLB advances	209,900	212,000
Total short-term borrowings	$227,059	$ 237,865

* Overnight repurchase agreements with no expiration date

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Balance at period-end	$227,059	$130,295	$227,059	$130,295
Maximum amount outstanding at any month end	$279,525	$130,295	$279,525	$130,295
Average balance outstanding during the period	$218,566	$98,869	$198,079	